The Rank Group Plc

Annual Report & Accounts 2003

Rank Group

Rank is an international gaming, leisure and entertainment group structured around three major divisions with market leading positions

Financial highlights

Group operating profit* increased to £223.0m (2002 – £220.6m); £165.5m after goodwill amortisation and exceptional items (2002 – £213.4m)

Profit before tax* of £193.7m (2002 – £201.3m); £129.3m after goodwill amortisation and exceptional items (2002 – £198.0m)

Earnings per share* of 20.1p (2002 – 20.1p); 14.3p after goodwill amortisation and exceptional items (2002 – 19.6p)

Gaming operating profit* up 12% to £117.2m (2002 – £104.8m), reflecting continued growth in bingo and casinos and the addition of Blue Square

Hard Rock operating profit down to £23.1m (2002 – £27.6m), due to difficult trading conditions but with good progress on brand extensions into hotels and casinos

Deluxe operating profit* up 4% to £93.8m (2002 – £90.0m), with a strong performance in Film offsetting the anticipated decline within Media

Proposed final dividend up 6% to 9.3p (2002 – 8.8p), making a total for the year of 13.9p (2002 – 13.2p)

Net debt of £700.5m (2002 – £399.1m), following redemption of convertible preference shares; fixed charge cover of 4.4 times

Exceptional charge after tax of £31.9m

*before goodwill amortisation and exceptional items

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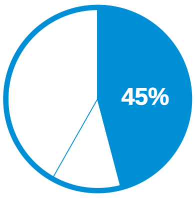
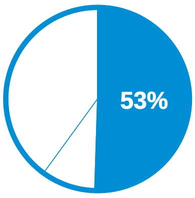
Gaming

Rank has one of the UK's leading gaming businesses with Mecca Bingo, Grosvenor Casinos and Blue Square

Turnover
£865.7m



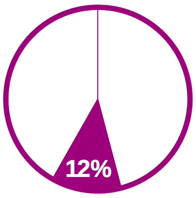
Operating profit*
£117.2m



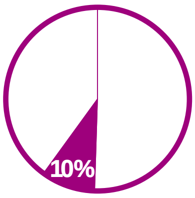
Hard Rock

Hard Rock is one of the world's most widely recognised entertainment brands including cafes, hotels, casinos, live venues and merchandising

Turnover
£234.0m



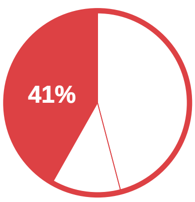
Operating profit
£23.1m



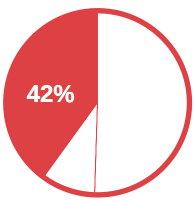
Deluxe

Deluxe Film and Media Services provide film and DVD production, distribution and related services to the global movie industry

Turnover
£788.5m



Operating profit*
£93.8m



*before goodwill amortisation and exceptional items

Our brands

Mecca Bingo
121 clubs in the UK and 10 in Spain

Grosvenor Casinos
5 in London, 27 in UK provinces and 2 in Belgium

Hard Rock Casinos
2 Hard Rock Casinos, one in London and one in Manchester

Blue Square
Three websites, telephone betting and interactive gaming

Stafferton Way, Maidenhead, Berks SL6 1AY
Tel: 01628 504000

Useful websites
www.bluesq.com
www.grosvenor-casinos.co.uk
www.hardrockcasino.com
www.meccabingo.com
www.gamblingreview.co.uk

Hard Rock Cafes
65 company-owned, 48 franchised in a total of 44 countries

Hard Rock Hotels and Casinos
Joint venture with Sol Meliá to develop Hard Rock Hotels in Europe and the Americas while hotels in Bali and Thailand operate under licence. Two resort casinos and hotels under development on Indian reservation land in Florida, each operating under licence

Hard Rock Live!
Concert venues in Orlando, Mexico City, Bali and Guadalajara

Merchandise
Variety of branded merchandise available at all Hard Rock locations and via the website, www.hardrock.com

6100 Old Park Lane, Orlando, Florida 32835, US
Tel: 001 407 445 7625

Useful websites
www.hardrock.com

Deluxe Film Services
Laboratories in Canada, US, UK, Spain, Italy and Australia

Deluxe Media Services
DVD replication in US and Europe

Video duplication in US and Europe

Distribution, supply chain and digital services in US and Europe

568 Atrium Drive, Vernon Hills, IL 60061, US
Tel: 001 847 291 1150

1377 North Serrano Avenue, Hollywood, CA 90027, US
Tel: 001 323 462 6171

Useful websites
www.bydeluxe.com

Other operations

US Holidays
US Holidays comprises timeshare operations, campgrounds and a hotel

Universal Studios – Hotels
Rank has a 25% equity interest in three hotels at Universal Studios Escape, Orlando, Florida – Portofino Bay Hotel, Hard Rock Hotel and Royal Pacific Resort Hotel

Universal Studios – Japan
Rank has a 10% equity interest. Theme park opened 2001

Chairman's statement

Continued investment in our three core businesses has provided a platform for future growth...

During the past year, the Group has continued to invest in its business divisions, a process which I am confident will produce substantial future benefits for all stakeholders.

The executive management team has demonstrated a determination to consolidate the Group's position in each of its key markets and also build and expand those positions through careful and diligent investment. While the product of some of this investment will take time to come through in terms of financial performance, a number of projects are already beginning to bear fruit.

Most important, given its scale and profitability, is the Group's Gaming division which has a unique position in the UK market. Over the last few years, the Group has invested substantial sums in expanding and improving its bingo and casino facilities as well as enhancing the overall customer experience. The new Mecca club in York is one recent example of what can be achieved in bingo while the new casinos in Portsmouth and Plymouth represent another step forward in terms of quality and product offering. The addition of Blue Square in 2003 means that the Group can now offer the full suite of gaming products to all of its customers.

At Hard Rock, the focus has been to continue to build on the brand's market position through a limited number of additional owned cafes, more franchised cafes and, in particular, brand extensions by third parties into hotels and casinos. A number of these brand extension opportunities are expected to begin to contribute during 2004.

Deluxe has benefited from sensible investment across both parts of its business. In Media, the transition from VHS to DVD is all but complete. The DVD market is one which is growing quickly and where, having made some carefully chosen acquisitions over the last 18 months, the Group is now a major player. In Film, having expanded geographically and through the introduction of low-cost solutions for its studio customers, Deluxe has been able to secure the majority of its major film contracts until 2006 or beyond.

The investments made in recent years have placed the Group's businesses in strong positions in their respective markets and I believe that the investment strategy to date will enable the Group to continue to deliver handsome returns for its shareholders.

Alun Cathcart
Chairman

KEY FACTS 2003

31 per cent operating margin in UK bingo

6 per cent increase in final dividend

5 billion feet of film produced by Deluxe

1 million active Mecca Bingo members

45 per cent of Mecca Bingo members are under 45 years old

36 casino licences in the UK

7 thousand customers per week at the two Hard Rock Casinos

9 hundred-thousand casino members

16 per cent increase in profit at provincial casinos

50 per cent increase in the number of active Blue Square customers

3 million square feet of licensed gaming premises

5 additional bingo relocations in 2004

40 per cent of 2003 film footage contracted until at least 2009

Electronic roulette

First introduced into UK casinos in 2000/2001, electronic roulette has proved extremely popular with new and existing players alike. According to the Gaming Board of Great Britain, across the UK as a whole for the year to March 2003, electronic roulette represented 8.7% of total gross spend, equivalent to approximately £330m. Currently, Rank has 547 positions across 33 of its UK casinos.

Blue Square online and interactive betting enables us to offer a full suite of gaming products


Refurbished Grosvenor casino in Plymouth

Chief Executive's review

The Group made substantial progress in 2003, positioning the business for the longer term...

Group operating profit* was slightly ahead of last year at £223.0m (2002 – £220.6m). Overall, this was a satisfactory result and was achieved despite the costs associated with the future development of the Group and £4.6m of adverse currency movements.

Results
Gaming again achieved double digit growth in operating profit*. Provincial casinos were particularly strong, off-setting a flatter performance at Mecca, while Blue Square performed in line with expectations following its acquisition by the Group in January 2003. The financial results from Hard Rock were disappointing, as the continued positive trend in like-for-like food and beverage sales was outweighed by poor merchandise sales. Deluxe performed better than expected with another excellent result in Film, more than compensating for the anticipated reduction in profits at Deluxe Media as the business migrates from VHS to DVD.

*before goodwill amortisation and exceptional items

Development
During 2003, the Group continued to develop each of its three business divisions through a combination of product development and carefully planned investment. This will continue in 2004, with the focus of new investment becoming increasingly centred on Gaming, as the content and timing of gaming deregulation in the UK becomes clearer.

Gaming
In Mecca Bingo, the clubs at York and West Bromwich were relocated in 2003. Since the year-end, the club in Burton has been relocated and plans are under way for further relocations in Bolton, Glasgow, Ellesmere Port and Edinburgh, all of which are expected to be completed during 2004. By the end of 2004, Mecca and Grosvenor will have four facilities sharing the same premises, which will ease the potential transition to multi-gaming when the law allows. With approximately 2.8m square feet of licensed gaming space, the Mecca estate is a major asset of the Group and will play a key role in our gaming deregulation strategy.

Grosvenor Casinos also had a busy 2003 with the refurbishment and expansion of the Park Tower in central London, and the relocation of casinos in Huddersfield, Portsmouth and Plymouth. This takes the total number of casinos which are new builds to 13, out of a total of 34 currently in operation. Two new casino licences have been granted in Stoke-on-Trent and Bolton, the latter being a converted supermarket with over 57,000 square feet which will also house the relocated Mecca Bingo club. Both of these casinos, together with the relocated Cardiff casino, are expected to open in 2004. Applications for at least five new casino licences are also planned. If successful, this would take the total number of casino licences in the UK to 41, strengthening the Group's market position.

The acquisition of Blue Square has transformed the Group's presence in the interactive gaming arena. Having successfully combined the Blue Square and Rank Interactive Gaming operations, the enlarged business now allows customers to bet with Blue Square and play games on the recently launched Meccagames.com using a single account. Product development continues apace – Aces High was launched in the autumn and has already proved very successful. Additional games

Our strategy

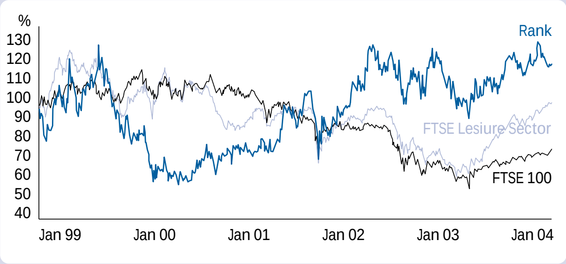
The structure of the Group has not changed materially since 2000 and comprises our three core divisions, each of which has strong positions in its chosen markets to generate attractive returns for shareholders:

- **Gaming** – we have leading market positions in each of our operating businesses in bingo, casinos and interactive sports betting and are well placed to take advantage of gaming deregulation in the UK;
- **Hard Rock** – we believe there remains substantial value locked up within one of the world's best known brands, something we are already starting to exploit through brand extensions into hotels and casinos; and
- **Deluxe** – we have strong market positions in DVD and VHS as well as in Film where Deluxe is the market leader and has contracts with a number of major Hollywood studios.

The Group's strategy continues to focus on improving the returns on its invested capital, principally through organic growth and prudent investment but also through refining the business portfolio through selective acquisitions and disposals when attractive opportunities arise. Lowering the Group's overall cost of capital and optimising the capital structure of the Group are also key elements of the strategy.

Since embarking on this strategy, the Group's EPS before goodwill amortisation and exceptional items has increased from 15.2p in 2000 to 20.1p in 2003 and dividend per share has grown from 12.0p to 13.9p. This has been reflected in the Group's relative outperformance as shown below.

Share price



Acquisitions and development

The Group has continued to invest in all of its business divisions and there were a number of acquisitions and developments during 2003, each of which has further enhanced the Group's position in its target markets. Three of the more substantial developments are summarised below.

Blue Square: Expanding Gaming into sports betting
Offering the full suite of gaming products to UK customers has long been an objective of the Group given the strong crossover between casino players and people who bet. In January 2003, we acquired Blue Square for £65m in unsecured convertible loan stock. Blue Square is one of the UK's leading telephone and internet sports betting businesses with over 200,000 active customers[1]. By combining Blue Square with the Group's existing online gaming business, the Group has realised annualised cost savings of approximately £5m per annum.

[1] Customers who have placed a bet within the last twelve months

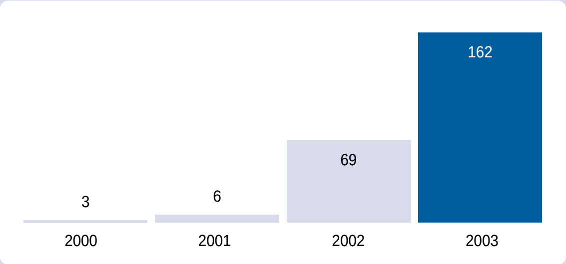
Hard Rock: Development of Hard Rock Hotels
Building on the success of the Hard Rock Hotel in Orlando, in June 2003 we formed a 50:50 joint venture with Sol Meliá, the largest resort hotelier in the world, to develop a portfolio of Hard Rock Hotels throughout the Americas and Europe. Hard Rock has committed to sourcing 1,300 rooms by 2006 and has already developed 381 rooms in Chicago; a further 250 are to open in San Diego in 2006.

Hard Rock HOTEL

Sol Meliá
HOTELS & RESORTS

Deluxe Media: Further expansion in DVD
In July 2003, building on the previous venture formed with Ritek of Taiwan, we announced the purchase of Disctronics, one of the largest independent DVD and CD replicators in Europe, for £34m. This consolidated Deluxe's position as one of the world's leading independent DVD manufacturers with a total capacity approaching 300m discs per annum. At the same time we announced that we had entered into a multi-year VHS and DVD contract with Universal, representing approximately 20% of Universal's total DVD volume.

Deluxe Media DVD production volumes (m units)



and a Blue Square casino will be launched later this year. An application has been made to site the first Blue Square shop next to the Victoria Casino in London. Applications for a number of other shops are also planned for locations adjacent to some of the Group's casinos and bingo clubs. This will be a first step ahead of deregulation, when it is expected that sports betting will be permitted within casinos.

Deregulation
The deregulation process appears to be gathering momentum. The Joint Committee on the Draft Gambling Bill is due to publish its report on 8 April 2004, and it is expected that the Government will re-issue the Bill for a first reading later this year. Whilst the fine detail of what is proposed remains to be clarified, Rank believes that its strong position in the UK betting and gaming market leaves it well placed to benefit from the proposed changes.

Hard Rock
At Hard Rock, the focus remains on extending the brand into non-restaurant activities, principally hotels and casinos. The two hotel/casino developments on Seminole Indian land in Florida represent a major step towards increasing the proportion of Hard Rock profits coming from non-restaurant operations. The smaller of the two Seminole developments, located in Tampa, is already partially open with 250 hotel rooms and 90,000 square feet of gaming. The second development in Hollywood is due to open in May. Elsewhere, following a successful first phase financing, construction has now begun on a new US$235m Hard Rock Hotel and Casino in Biloxi, Mississippi, under the terms of a 20 year licence agreement.

In June 2003 we announced the formation of a joint venture with Sol Meliá, the Spanish hotel group, to develop Hard Rock Hotels. The first hotel operated by the joint venture has opened in Chicago. Plans for a Hard Rock Hotel in San Diego have already been announced and we expect to be able to confirm plans for further hotels before the end of the year.

New owned cafes opened in Cardiff, Choctaw, Cologne, Detroit and Lisbon, with new franchised cafes in Moscow and Nassau. A total of ten new cafes are planned to open in 2004, five of which will be owned, including two within casino developments – one in Foxwoods, Connecticut, the other within the Seminole development in Hollywood, Florida.

Deluxe
Deluxe Film continued to grow customer volumes during 2003, supported by the new laboratories in Toronto and Rome and improved geographic coverage following investments in Spain and Australia. Deluxe Film's contract position was bolstered last year by the successful extension of three contracts, further securing its position as the world's leading film processing business.

In Deluxe Media, the ongoing transition from VHS to DVD continued with the concentration of all North American DVD replication into the low-cost production facility in Arkansas. Following the acquisition of Disctronics in July 2003, the Group now has a substantial disc manufacturing presence in Europe. The distribution business continues to prosper on the back of strong market growth, while Digital Services, Deluxe's compression and authoring business, is now one of the largest in the North American market. The demand for DVD continues to grow rapidly and securing additional contracted business from major customers remains a key objective.

Financing
During 2003, the Group raised almost £1bn in new finance from a variety of sources, which both lowered the Group's cost of borrowing and also improved the overall debt maturity profile. These facilities were partly used to refinance both the £226m of outstanding convertible preference shares and the £125m 2008 sterling bond which were redeemed in December 2003. Net debt was £700.5m at the year-end with an average cost of borrowing of 5.4% for the year.

Current trading and outlook
The trading patterns experienced in the first eight weeks since the year-end are similar to those experienced in 2003. Despite adverse currency movements, we expect to make progress during 2004 and underlying earnings can be expected to benefit from a much lower cost of capital following the refinancings completed in 2003. The main focus of our efforts in 2004 will be on Gaming where the opportunities for further development, especially following the proposed changes in the UK regulatory environment, could be significant.

The benefits from the investments made across all of the Group's businesses, accompanied by the continued prudent management of the Group's balance sheet, mean that the Board remains confident of delivering long term returns for Rank shareholders. We are pleased to announce a 6% increase in the proposed final dividend to 9.3p per share, making a total dividend for the year of 13.9p per share.

Mike Smith
Chief Executive

UK Gaming deregulation:

the proposed changes can be expected to result in a step change in the performance of our largest division.

Gaming in the UK has been subject to the same legislation for over 30 years and Rank is delighted that the UK Government has recognised the need to revise the regulations to reflect changes in consumer behaviour, market practices and technology.

Impact of proposed changes

While the finer details of what is proposed have yet to be finalised, it is widely expected that once the final legislation is passed, the UK gaming market will grow substantially. The establishment of a single regulator, The Gambling Commission, with the requisite authority to regulate the gaming industry without the need to revert to Parliament, is also expected to create a much more dynamic operating environment. A survey conducted in January 2001 showed that just 4% of the UK population had played games in a casino during the previous 12 months[2] compared with approximately 30% in the US[3]. While the exact scale of growth is difficult to predict, the appeal of gaming as a mainstream leisure pursuit is not in doubt with over 70% of the UK population playing the National Lottery[2].

Major growth in the industry is also expected to result in more gaming premises, and casinos in particular – a recent study commissioned by Business In Sport and Leisure[4] predicted that the number of casinos in the UK would increase by between 82% and 98%. With 36 UK casino licences and 121 bingo clubs, many of which can be converted into casinos at relatively low cost, Rank is well positioned to take full advantage of the proposed regulatory changes as and when they occur.

Timing

A summary of the timetable of events to date is shown below. The next key event is the report by the Joint Committee on the Draft Gambling Bill which is due to be delivered to Government on 8 April 2004. Rank continues to believe that the Gambling Bill will become effective sometime in 2005.

[2] Gambling Review Report
[3] Financial Times – 12 December 2003
[4] "A Winning Hand – The Modernisation of UK Gambling"

Overview of what has happened since the Budd Report was published in 2001

July 2001	March 2002	July 2002	July 2003	August 2003	November 2003
Gambling Review published by Sir Alan Budd, recommending a substantial overhaul of the way the UK gaming industry is controlled	Government's response to Gambling Review, "A Safe Bet For Success" published, accepting most of the recommendations in the Budd Report	Publication of "The Government's proposals for gambling: Nothing to Lose"	First clauses of Draft Gambling Bill published	Position paper on casinos published and views sought	Further clauses of Draft Gambling Bill published. Pre-legislative Scrutiny Committee begins review of Draft Gambling Bill

Visit **www.gamblingreview.co.uk**, Rank's dedicated website identifying the key issues as and when they take place.

Relocated Mecca Bingo Club – York

An increasingly younger audience and the popularity of our range of interval games have contributed to an increase in spend per visit


Relocated Mecca Bingo Club – York Interior


Mecca Bingo – Interval games


Mecca Bingo – Drink


Mecca Bingo – Food

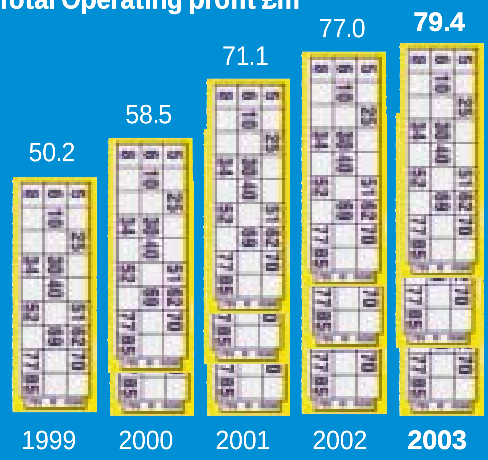
Gaming: Mecca Bingo

Turnover £257.7m
Operating profit £79.4m

Increasing the number of younger members and continuing to promote our range of interval games resulted in an 8% increase in spend per head

- In the UK Mecca had another year of steady growth with turnover up by 1% and operating profit up to £72.6m
- Total number of active members was 1.04m of whom 45% were under the age of 45
- With 2.8m square feet of licensed bingo premises, the Group is well placed to take advantage of UK deregulation when it occurs
- A further 143 jackpot machines were introduced into the estate, making a total of 353 machines by the year-end plus 3,656 AWPs
- The clubs at York and West Bromwich were successfully relocated during the year. There are plans for further relocations during 2004 in Bolton, Ellesmere Port, Glasgow, Edinburgh and Burton
- In October 2003, Mecca UK removed all admission fees which has proved particularly popular with customers
- In Spain, revenues and profits at Top Rank España grew by 32% and 48% respectively and a further bingo club was acquired in Santiago de Compostela during October, taking the total number of clubs in Spain to 10

Total Operating profit £m



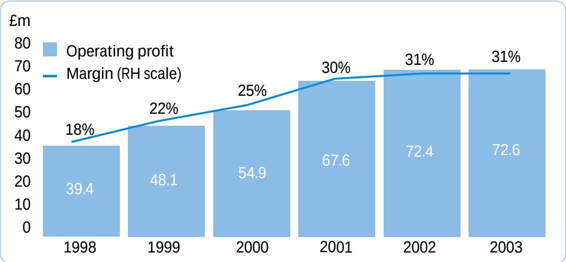
In depth

Established in 1961, Mecca was acquired by Rank in 1990 and is now one of the largest bingo operators in the country with a total of 121 bingo clubs which in 2003 paid out prizes of £285m. It also has 10 bingo clubs in Spain, operating under the Top Rank España brand.

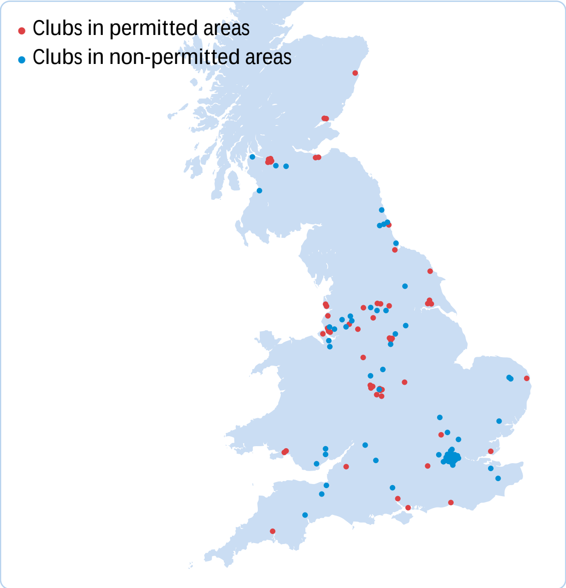
Membership
As at December 2003, Mecca UK had a total of 1.04m members of which 45% were under the age of 45. Over the last few years, the membership has remained broadly unchanged but the proportion of younger members has been steadily increasing.

Admissions and promotional spend
While membership has remained broadly flat in recent years, members have tended to come less often than they used to with the effect that admissions have been in decline. While spending more on promotion will increase attendance by encouraging marginal customers to come and play, such customers tend to spend less per visit and so reduce overall operating margins. By carefully balancing the level of admissions and promotional spend, Mecca has successfully grown its operating margin to one of the highest in the industry.

Mecca Bingo UK

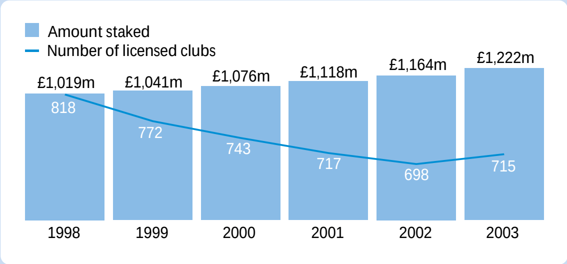


Club network – deregulation opportunity
As at the end of December 2003, Mecca operated 121 bingo clubs of which 65 were in towns or cities where casinos are currently not allowed. Once the new Gambling Bill has been passed into law, the Group plans to convert a number of these clubs into multi-gaming venues incorporating bingo and casino games, as well as sports betting.



Market insight

As at 31 March 2003, there were 715 licensed bingo clubs of which 699 were operating in the UK (603 in England and Wales and 96 in Scotland). While the number of clubs has declined from its peak of over 1,000, the industry has continued to generate positive growth in the total amount staked, reaching £1.2bn in the 12 months to March 2003.



Source: Gaming Board Annual reports
Note: Amount staked does not include cash staked on gaming machines

According to industry estimates, in recent years the number of members regularly playing bingo in the UK has remained broadly flat at approximately 3m with over 83m admissions to clubs each year. The largest single prize ever won in UK bingo was £953,000 which was won in the National Game on 22 December 2002.

UK Bingo – market structure
The UK Bingo market is made up of two major players, Gala Leisure and Mecca Bingo who between them have over 40% of the clubs operating in the UK but which, according to the National Game statistics, generate approximately 70% of total stakes.

Company	Number of clubs
Gala	167
Mecca	**121**
Top 10	23
Carlton	19
Others	369
Total	699

Source: Company websites and report and accounts

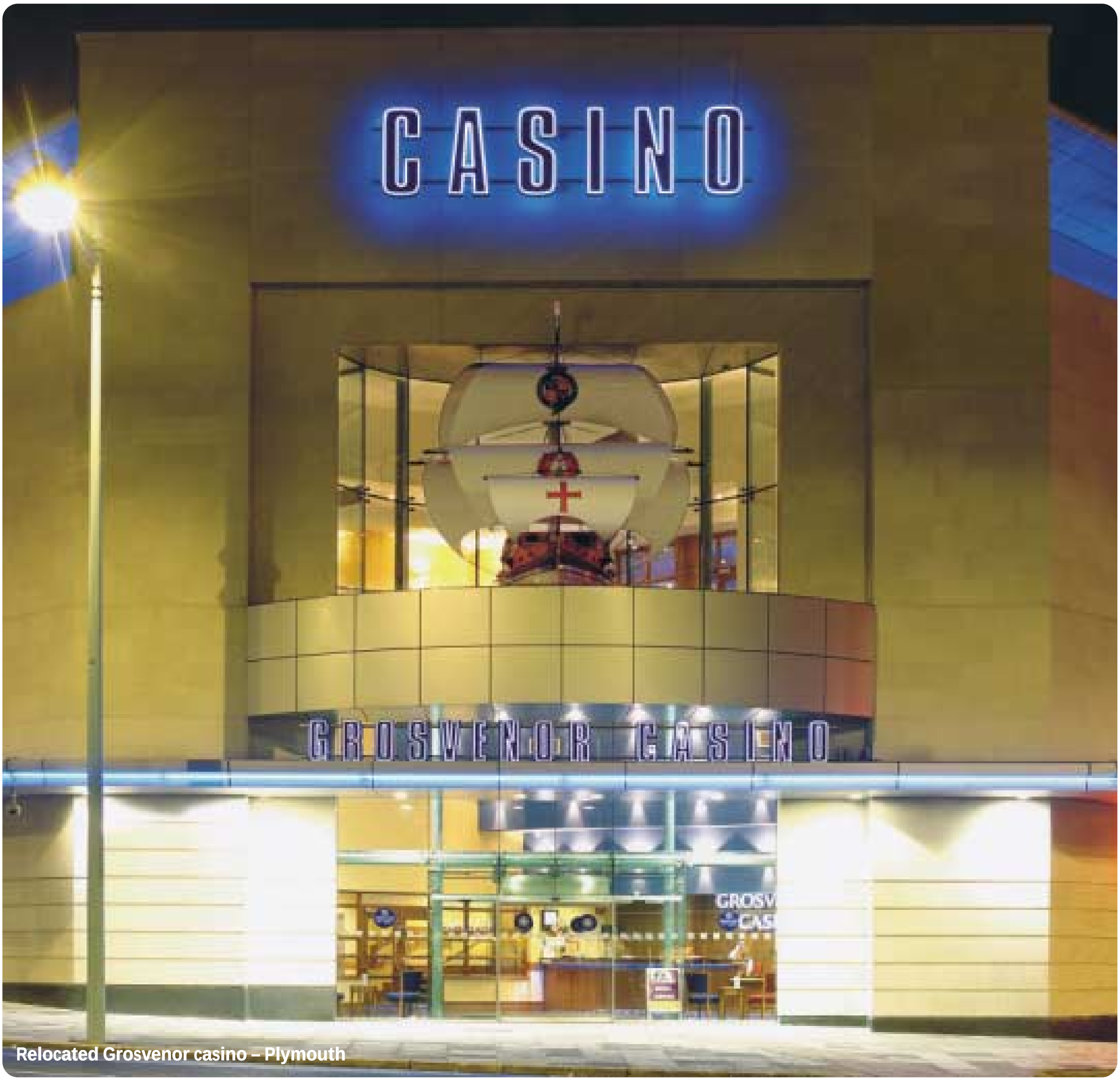
UK Bingo – duty
Since October 2003, UK bingo operators must pay 15% duty on revenues received from playing bingo, after the deduction of prizes. In addition, the net figure is subject to VAT at 17.5%. The bingo industry is lobbying the Government to also remove VAT from bingo games which would result in a major uplift in prizes and so balance the attractions of bingo relative to sports betting and pools betting, neither of which are subject to VAT.

The effects of deregulation

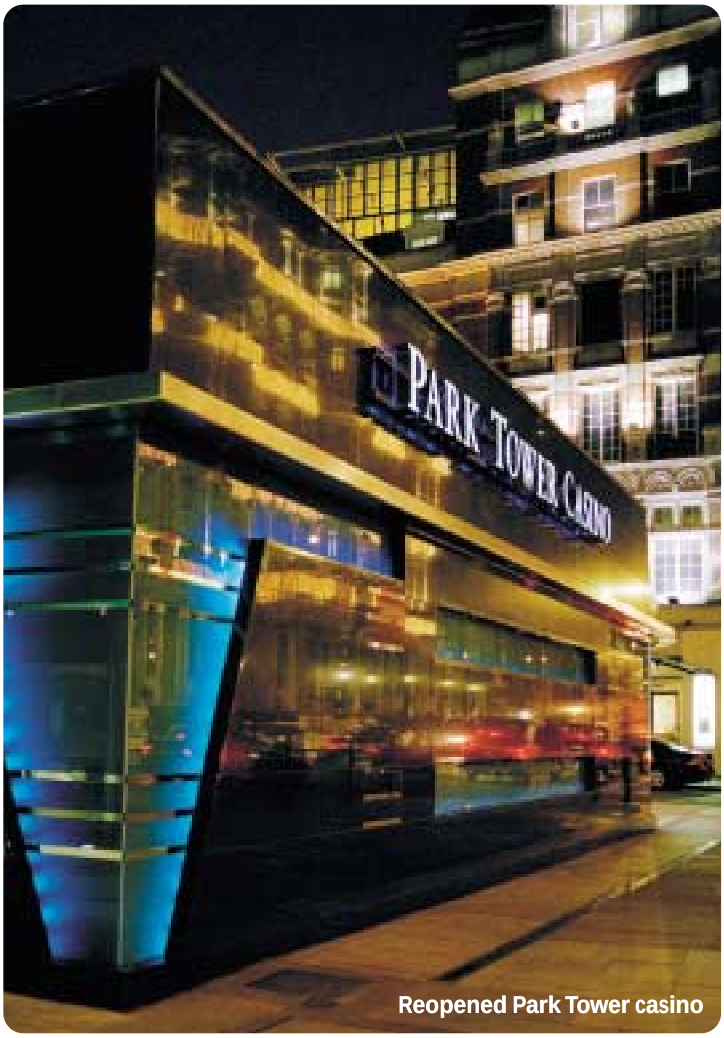
UK bingo clubs will benefit from the removal of the 24 hour rule and the ability to combine with casinos and sports betting to form multi-gaming facilities.

Continued investment in the enlargement, refurbishment and relocation of our casino estate means that we are well positioned to capitalise on deregulation as it occurs

Grosvenor casino interior – Plymouth



Relocated Grosvenor casino – Plymouth



Reopened Park Tower casino

Electronic roulette

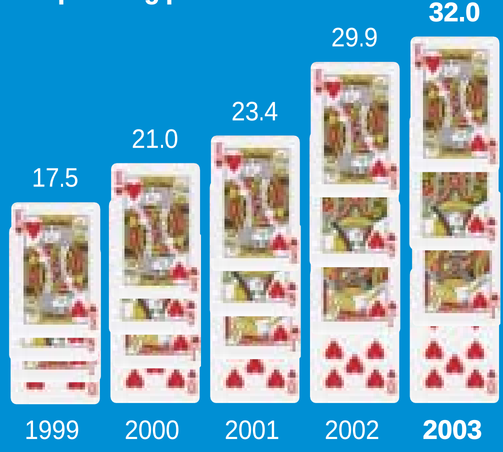
Gaming: Grosvenor Casinos

Turnover £183.3m
Operating profit £32.3m

Continued investment in developing new casinos and relocating existing casinos to bigger and better premises means that we are well placed to take full advantage of deregulation when it occurs

- Grosvenor UK delivered another year of record profits with operating profit up 7% to £32.0m
- Two new casino licences have been granted in Stoke-on-Trent and Bolton and these are expected to open during 2004
- A further five licences are in the process of being applied for and, if granted, are expected to come on stream during 2005/2006
- Three additional casinos were relocated during the year in Huddersfield, Plymouth and Portsmouth, contributing to the continued growth in the provincial casino business
- During 2004, we will relocate the casino in Cardiff and expect to relocate our second casino in Portsmouth in early 2005
- The Park Tower casino in London reopened successfully in July following a 40% expansion of its gaming space
- The number of electronic roulette positions throughout the estate has been increased to 547 and it continues to prove highly popular with both new players and experienced roulette players alike
- The Hard Rock casino in London has continued to beat expectations with regular attendance levels of over 5,000 customers per week
- Following the reform of payment methods for gaming machines in the UK introduced in December 2003, the Group will be making the necessary changes to all of its machines to allow payment by banknotes and smartcards

UK Operating profit £m

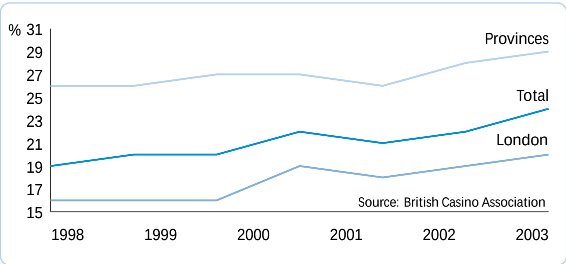


In depth

As at 31 December 2003, Grosvenor had 34 operating casinos in the UK and a further two licensed premises which are not yet operational but which are expected to open in 2004 in Stoke-on-Trent and Bolton in the North of England. The estate has a total of 382 gaming tables, 547 electronic roulette positions and approximately 900,000 members. Grosvenor also owns and operates two casinos in Belgium.

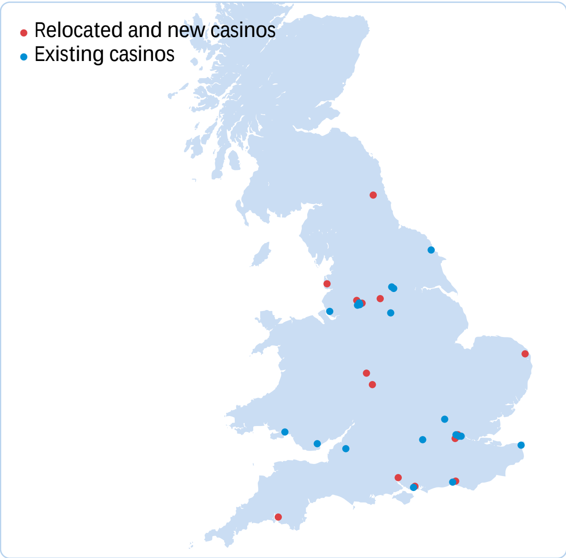
Market share

The UK casino market can be categorised into two key market segments: London and the provinces. For each of these segments, market share data is not readily available. However, using data from the British Casino Association, the following chart illustrates Grosvenor Casino's share of total "handle", or gross spend, over the last six years:



Relocations and new casinos

By the end of 2003, a total of nine casinos had been relocated to bigger and better premises at a total cost of approximately £28m. On average the relocations have experienced an increase in weekly attendance of 84% and spend per head of 49%. Since 2002, Grosvenor has opened four new casinos including the two new Hard Rock casinos, one in London and one in Manchester.



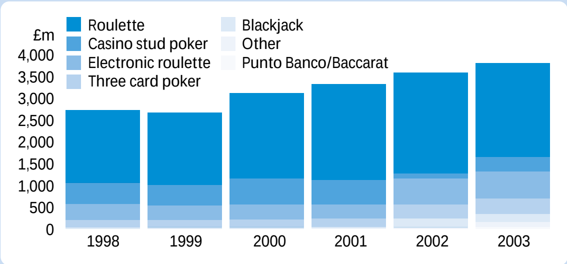
Benefits from preliminary deregulation

Over the last few years there have been a number of measures which have already improved the gaming experience in the UK: later opening hours, alcohol on the gaming floor and the introduction of live entertainment. A number of new games have also been allowed, the most significant of which has been electronic roulette. According to the Gaming Board, in the year to March 2003, electronic roulette represented almost 9% of gross spend, being approximately £330m, having been zero only two years previously.

Market insight

The number of casinos in the UK has changed very little over the last 30 years. In the year to March 2003, there were 135 licensed premises of which 126 were trading at that date[5]. This compares with 115 trading casinos in 1998. However, the total amount staked in casinos has continued to grow. Unlike many other gaming markets, table games dominate UK casinos with the most popular table games being roulette and blackjack.

Gross spending in UK casinos



Source: Gaming Board of Great Britain

Table game revenues can be calculated by multiplying gross spend or "handle" by the win percentage, the amount kept by the house. This percentage can vary over time and by type of casino, although since 1997/8 across the UK market as a whole it has averaged approximately 17%. The other main sources of revenues within UK casinos are gaming machines and food and beverage. Under current legislation, UK casinos can only offer a maximum of 10 limited prize jackpot machines. This is one of the key differences between the UK and other gaming markets where machines generate a much greater proportion of total casino revenue.

[5] Gaming Board Annual Report March 2003

The effects of deregulation

UK casinos will see the greatest amount of change following the introduction of the proposed regulatory changes in UK Gaming.

The most significant changes will be:

- Abolition of the 24 hour rule requiring players to be a member for at least 24 hours before being able to play in a casino
- Ability to advertise – casinos are currently restricted from promoting their premises
- Introduction of more slot machines – currently casinos are limited to just 10 limited payout machines

As a result of these and other changes, it is widely expected that there will be substantial growth in the industry.


Blue Square took a large number of bets on the Rugby World Cup in 2003

The launch of Meccagames.com has enabled genuine cross-marketing between two customer bases through a single account


Odds setting in Paddington

Blue Square call centre

Meccagames.com and other Rank gaming websites

Blue Square branding at the Shergar Cup

Gaming: Blue Square

Pro forma turnover[7] £389.9m
Operating profit* £1.9m

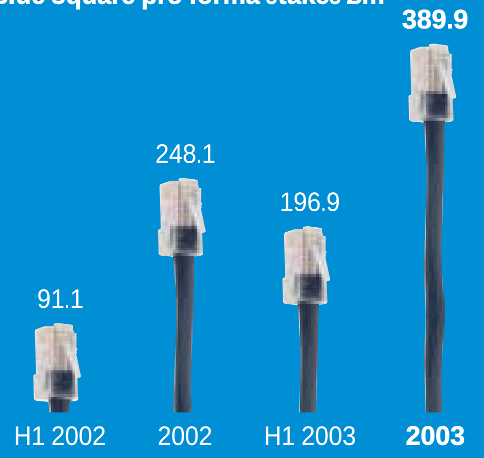
Integrating both Blue Square and Rank's online games onto a single operating platform has realised substantial savings of £5m per annum

- Acquired in January 2003, Blue Square has continued to grow both turnover and operating profit with total stakes of £390m, an increase of 57% over the prior year
- Offering odds on a broad range of national and international sporting events, including horse racing, football, rugby and cricket, the business has over 200,000 active[8] customers
- In addition to sports betting, Blue Square has expanded its portfolio of other gaming products with the launch of Aces High, which is proving highly popular
- The acquisition of Heathorns now gives Blue Square a position at some of the UK's leading race courses including Ascot, Cheltenham, Epsom, Goodwood, Newmarket and York
- Meccagames.com was successfully launched during 2003, offering 19 different games including a number of different keno, bingo and numbers-based games
- HardRockCasino.com was successfully relocated to Alderney in the Channel Islands during the year and has already benefited from the more flexible regulatory environment
- During 2004, Blue Square expects to launch a poker room and a Blue Square Casino
- Blue Square has applied for a licence to open and operate its first betting shop adjacent to the Group's Victoria Casino in London

[7] Restated assuming Rank had owned Blue Square for the full year in both 2002 and 2003
[8] Someone who has placed a bet within the previous twelve months

*before goodwill amortisation and exceptional items

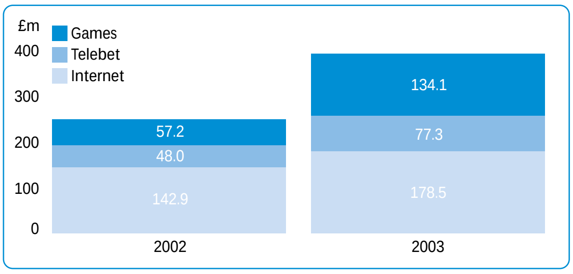
Blue Square pro forma stakes £m



In depth

Business structure
Blue Square provides sports betting through a variety of distribution channels including the internet, over the telephone to a dedicated call centre and through interactive television. A summary of the mix of stakes between sports betting and games for the year to December 2003 is shown below:

Blue Square stakes*



*restated to show Blue Square as if it had been owned for the full year in both 2002 and 2003

Since the launch of Meccagames.com during autumn 2003, customers can now access both the Meccagames and Blue Square websites using a single customer account, so allowing registered players to bet or play on either site with the same account.

Under current UK law, sports betting and internet games can operate from UK-based servers, but casino games can only operate from an offshore server. For this reason HardRockCasino.com operates on servers based in Alderney in the Channel Islands. HardRockCasino.com offers a broad range of casino-style games including roulette and blackjack.

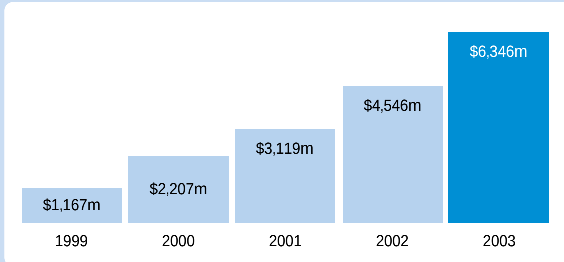
Given the similar profile of both casino and sports betting customers, following deregulation and the requisite change in the legislation, the Group intends to put sportsbook facilities into a number of its UK casinos and bingo clubs which will broaden further the Group's gaming offering.

Gross win
Unlike the rest of the Gaming division, but in line with the rest of the UK sports betting industry, Blue Square reports stakes as turnover. Gross win margins on sports betting tend to be lower and more volatile than on internet games owing to the fact that live events are by their very nature less predictable than fixed odds bets. The structure of most casino games such as roulette and card games means that gross win margins on casino games tend to be lower still.

Market insight

The scale of the task means that estimates regarding the size of the online and interactive gaming market vary. However, according to some market forecasts, the online gaming market is expected to increase from 1% to 10% of all gambling between 2000 and 2005 when it would equate to US$15bn[6].

Estimated actual internet gambling expenditure



Source: Gambling Review Report

At the time it was acquired in January 2003, and on the basis of then publicly available information, Blue Square estimated that combined with Rank's existing interactive games business, it had approximately 14% of the UK online gaming market as measured by stakes. Blue Square's major competitors in the UK online gaming market are Ladbrokes (part of Hilton Group plc), William Hill plc and Sportingbet plc.

International developments
Following a European Court of Justice ruling in late 2003, the European online gaming market could soon be truly "open" for business. The implications of the so-called "Gambelli Case" are significant for online operations and may result in European opportunities for a number of UK-based online gaming businesses.

[6] Financial Times – 23 February 2004

The effects of deregulation

Interactive gaming businesses will be able to offer casino games from UK-based servers which will allow players to have a single account for sports betting, games and casino games. In addition, the Group plans to put sports betting into each of its UK casinos as soon as the new regulations allow. Currently, Rank is the only UK gaming business which is able to offer bingo, casino gaming and sports betting.

The Seminole Indian Nation developments open in 2004. The $410m project will include two Hard Rock Hotels with 750 rooms and 200,000 square feet of casino gaming

Hard Rock Casino and Hotel – Tampa, Florida

Hard Rock Casino and Hotel – Hollywood, Florida

Hard Rock Hotel – Chicago

Hard Rock Cafe – Moscow

Hard Rock Cafe – Cardiff

Hard Rock

Turnover	**£234.0m**
Operating profit	**£23.1m**

While the cafes have continued to suffer from the downturn in international travel, the core strategy of extending the Hard Rock brand into hotels and casinos is beginning to bear fruit

- During the year new owned cafes opened in Cologne, Choctaw, Cardiff, Lisbon and Detroit taking the total number of owned cafes worldwide to 65 while additional franchised cafes opened in Moscow and Nassau, making a total of 48
- Despite the downturn in international tourism, like-for-like food and beverage sales for the 12 months to December 2003 were up 2.4%. Merchandise sales were down 11.2%
- Hard Rock Live! in Orlando staged a series of concerts which were recorded and subsequently broadcast on the MTV network
- A number of new owned cafes are expected to open in 2004 including Louisville and Destin and as part of the latest casino development in Foxwoods, Connecticut. In addition, a new cafe will open as part of the Seminole Hotel and Casino development in Fort Lauderdale, Florida
- The Seminole Hotel and Casino development in Tampa is already open and Fort Lauderdale is on track to open in May 2004
- A licence has been granted for a new Hard Rock Hotel and Casino in Biloxi, Mississippi which is now under development and is expected to open in 2005
- The Hard Rock Hotel in Chicago opened in January 2004 and is the first hotel to open as part of the joint venture with Sol Meliá, the Spanish hotel group. Other hotels have already been identified, with one in San Diego due to open in 2006

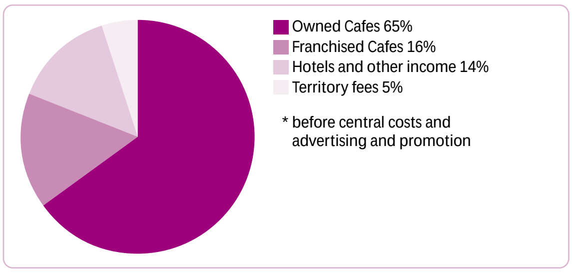
Turnover £m

In depth

The first Hard Rock Cafe opened in London in 1971. Since then it has developed into one of the world's leading restaurant businesses with operations in 44 countries. While the Group continues to add limited numbers of cafes to the portfolio, the focus now is to continue to develop and promote the Hard Rock brand, so enhancing its appeal to potential franchise owners and licensees.

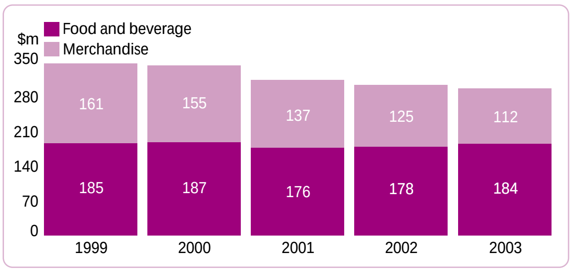
The business can be divided into three key segments: owned cafes, franchised cafes and hotel and other franchise income.

2003 operating profit*



Restaurant performance
Restaurant revenues are made up of food and beverage sales and the sale of Hard Rock branded merchandise, such as T-shirts and other goods and clothing. While food and beverage sales have continued to grow, the shift in revenue mix has impacted performance as merchandise sales attract higher operating margins than food and beverage.

Revenue from owned cafes – comparable cafe performance



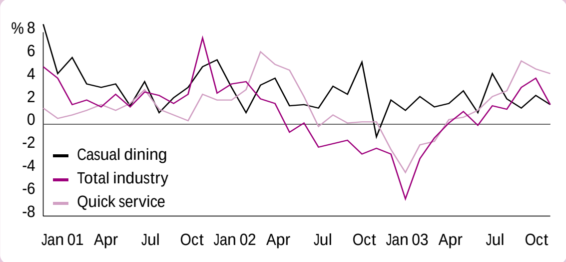
Hotel and casino developments
Hard Rock already has a number of licensing agreements with third parties who have recognised the strength of the Hard Rock brand as a means to deliver superior returns. Such agreements provide Hard Rock with additional revenue with little or no investment required and therefore generate very high returns on capital. A summary of the new developments under way is shown below:

Opening date	Description	Development cost US$m	Hard Rock investment US$m
January 2004	381-room Hard Rock Hotel in Chicago	100	7
March and May 2004	250-room hotel and 90,000 sq ft casino in Tampa, Florida 500-room hotel and 115,000 sq ft casino in Fort Lauderdale, Florida	410	–
Q3 2005	306-room hotel, 50,000 sq ft casino in Biloxi, Mississippi	235	10
Q1 2006	250-room hotel in Gaslamp district of San Diego	175	–

Market insight

According to Euromonitor[9], the total global market for consumer foodservice was valued at US$1,087bn in 2001, an increase of 5.7% since 1997. The US dominates the global market as the largest individual market valued at US$326.6bn in 2001 followed by Japan, China, Italy and the UK.

The US was also the best performing of the major foodservice markets in value terms, despite the economic downturn and disruption to international tourism. Overall growth between 1997 and 2001 was 20.2%, supported by rising incomes. While the industry as a whole experienced a downturn during mid-2002, there has been a steady improvement since the beginning of 2003.



Hard Rock falls within the casual dining sub-segment. According to research[10], casual dining sales in the US grew at twice the rate of quick service restaurants during the 1990s with the top 100 casual dining restaurants in the US generating revenues of US$28bn in 2002, a compound annual growth rate of over 11% since 1992. This growth has been attributed in part to a number of trends including the increasing number of dual income families (and an increase in the proportion of women in the workforce), increasingly hectic lifestyles, expanding urban populations and a general increased appetite for eating out.

US market structure
The competitive environment for any particular cafe in the portfolio tends to be dominated by the specific local market structure rather than national statistics, making national market share data less relevant. However, common competitors in the US would include Outback Steakhouse, TGIFriday's, Rainforest Café and Applebee's.

[9] Euromonitor, Global Strategy – January 2003
[10] United States Restaurants – Goldman Sachs – 8 December 2003

The Lord of the Rings: The Return of the King

The successful worldwide film release of The Lord of the Rings: The Return of the King and X-Men United helped make 2003 a particularly strong year for Deluxe Film

X-Men United

Kill Bill: Vol 1


Master and Commander

Deluxe: Film

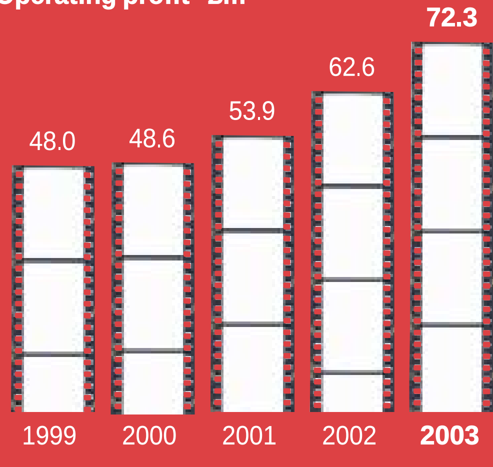
Turnover £396.4m
Operating profit* £72.3m

The film business again produced a strong performance despite the loss of the Universal and Fox International film contracts during 2003

- Total footage increased by 3% in 2003 to 4.8bn reflecting additional contract wins and strong underlying market growth
- Major studio customers had a number of box office successes including The Lord of the Rings: The Return of the King, X-Men United, Master and Commander and Kill Bill: Vol 1
- During the year, Deluxe renewed a number of existing contracts so that the average contract life is now just over four years with 82% of 2003 contracted footage secured until at least 2006
- ETS, the film distribution business, became a wholly-owned subsidiary at the end of 2002
- The investment in digital technology has continued through the Group's investment in EFILM which specialises in digital intermediates and post-production
- In Spain, Image has had a particularly strong year following its acquisition in 2002 while in Australia, Atlab successfully installed new developing machines, increasing its capabilities substantially

*before goodwill amortisation

Operating profit* £m



In depth

Deluxe has been in the film replication business since the beginning of the 1900s and has excellent relationships with a number of Hollywood's major film studios including Columbia, Fox, MGM, Miramax, New Line and Paramount. Since that time, the industry and technology have both progressed enormously with huge leaps in visual as well as audio quality. The production process is complex and highly time critical with Deluxe and the studio working in tandem to ensure that the release is in the theatres on time. With laboratories in Hollywood, Toronto, London, Rome, Barcelona and Sydney, Deluxe is able to offer its customers a truly global presence, ensuring consistency of product throughout the world.

Complete service
Deluxe Film provides end-to-end service for its studio customers. Even before a film director says "cut", Deluxe may have already been closely involved in designing and influencing the final movie product. Working closely with the film's director and director of photography, Deluxe will help formulate the "look and feel" of a film through the use of a variety of specialist development techniques and processes in both a digital and photo-chemical environment. The timely production and return of daily prints or "rushes" ensures that the director gets the result he is looking for and can move on to the next scene to be shot. Once complete, Deluxe will add in the sound track and synchronise it with the film footage, before providing the director with a final copy for approval. When finished, Deluxe can then move into full production before distributing the finished product to exhibitors through its ETS subsidiary.

Contract advances
In line with market practice and that of its major competitor, when renewing or extending an existing film contract, Deluxe Film often, but not always, will agree to provide a major studio with an upfront volume rebate or cash advance. This advance, which is paid in cash, creates a debtor in the Deluxe balance sheet, which is then amortised over the length of the contract. As at 31 December 2003, Deluxe Film had £208m of net contract advances receivable, representing over four years of future contracted footage.

Threat of digital exhibition?
Much has been made of the digital threat to the film business. The advent of digital cinemas received a major boost with the release of Star Wars: Episode 1 – The Phantom Menace in 1999 which was shot entirely on digital. While much was made of the expected expansion of digital exhibition, four years later there were still only 124 digital screens in the US[11], out of a total of approximately 35,000[11] and in the three years after the release of Episode 1 and Star Wars: Episode 2 – Attack of the Clones, just 44 titles were released in digital format.

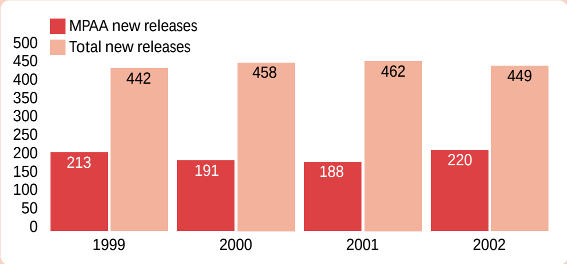
[11] Motion Picture Association of America – 2002 Market Statistics

Market insight

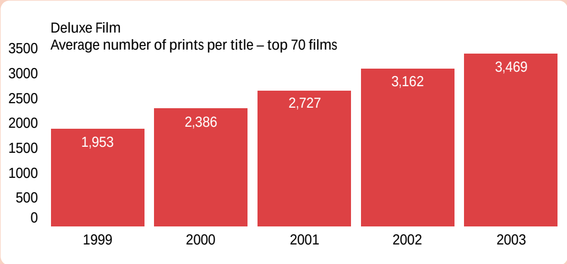
According to Screen Digest[12] global gross box office revenues increased by some 15% to US$20.4bn in 2002. The largest single market is the US where gross box office revenues increased by 13% to US$9.5bn, the eleventh year of consecutive revenue growth. In the European Union total box office revenues increased by 11% to just under US$5bn. For 2003, North American box office revenues fell 1% to US$9.4bn, this is still the second highest figure since 1957.

Number of screens
While the total number of screens worldwide fell by 0.4% in 2002 to 165,774, screen growth is continuing in the European Union where the number of screens increased 5% to 25,306. This was driven principally by a major expansion in the number of multiplex cinemas in Italy where the number of screens grew by 14% but also by further growth in Portugal (26%), Spain (7%) and the UK (5%).

Number of films produced
According to the Motion Picture Association of America, the number of films produced by its members in the US, which includes all of the major Hollywood studios, increased by 17% in 2002[13] to 220, although this implied a Compound Annual Growth Rate (CAGR) of just 1% since 1999. The total number of new releases declined in 2002 by 3% to 449, but again over the three-year period the implied CAGR was broadly flat.



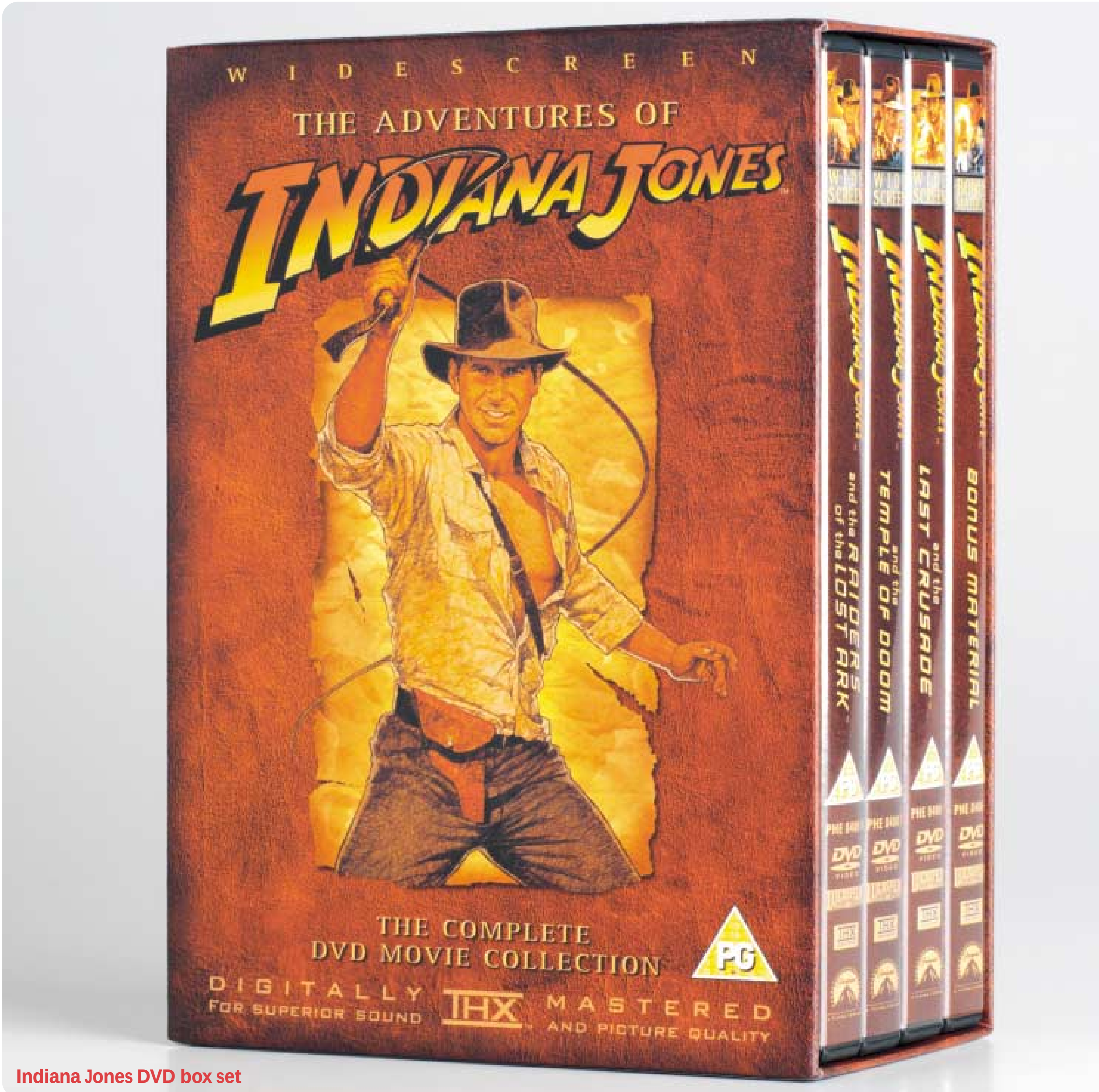
Number of prints per title
Despite a slowdown in screen growth the industry is continuing to experience strong volume growth. This is being driven in part by the recent trend of studios increasing the number of release prints being ordered for individual titles. Studios seek to recover as much of their outlay as quickly as possible by releasing the movie into as many theatres as possible, resulting in higher numbers of prints. However, early payback is not the sole motivation. Studios are also keen to maximise the initial "buzz" thus increasing the potential for home entertainment sales of DVD and VHS.



[12] Screen Digest – Global Cinema Exhibition Markets, October 2003
[13] Screen Digest – Studio Movie Revenue Outpacing Costs, April 2003

We have transformed the Media business and built upon our strong distribution capabilities to become a major DVD producer in terms of capacity

Deluxe – Southwater



Indiana Jones DVD box set

DVD replication

Online archiving

Distribution facilities

Deluxe: Media Services

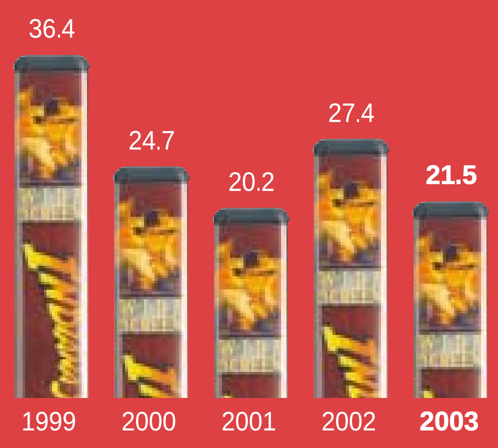
Turnover	**£392.1m**
Operating profit*	**£21.5m**

The Media business made further progress in 2003. The transition from VHS to DVD is virtually complete and Deluxe now offers a broad range of DVD-related services

- Total volume of DVDs produced increased by 135% during 2003 to 162m units reflecting a full year of the Ritek acquisition together with five full months from Disctronics which was acquired in July 2003 for £34.3m
- While DVD volumes increased, VHS continued to decline. Total VHS volume for 2003 of 160m units compared with 300m just three years earlier
- In distribution, volumes were also well ahead of last year with 523m DVD and VHS units shipped, an increase of 18% compared with 2002
- During the year, Deluxe secured a replication contract for 20% of Universal Studios' worldwide DVD volume whilst the European VHS contract with Universal was won for the first time and the US VHS contract was extended
- Deluxe has announced a major distribution contract for Musicland, a speciality retailer for music and DVD with 950 stores in the US
- £35.8m of exceptional reorganisation costs were incurred during the year reflecting the closure of a number of plants and the relocation of DVD equipment into the low-cost Arkansas facility
- In Digital Services, Deluxe is now one of the largest providers of CEA services in the US and has seen strong growth in 2003

*before goodwill amortisation and exceptional items

Operating profit* £m



In depth

In 2000, Deluxe Media was the second largest producer of VHS in the world, behind Technicolor, but had delayed entering the DVD replication market which at that time was suffering from substantial over-capacity. Having made a small acquisition of an individual DVD plant in California during 2000, the Group transformed the business in July 2002, following the acquisition of certain DVD assets in North America and Europe from Ritek Corporation of Taiwan and the establishment of an ongoing co-operation agreement. Deluxe's position in the global media market was strengthened further by the acquisition of Disctronics in July 2003. Deluxe Media now has optical replication plants in the US, Canada, France, Italy and the UK.

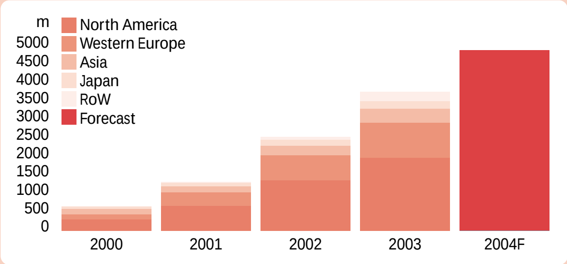
Managing the transition to DVD
In 2000, Deluxe Media produced just 3m DVDs. By 2003 this had grown to over 162m reflecting the first full year of Ritek as well as a contribution from the newly acquired Disctronics. The complexity of managing this transition cannot be understated and while a number of one-off costs have been incurred during 2003, Deluxe Media now stands as one of the world's major DVD replicators in terms of capacity. In contrast with DVD, in 2003 Deluxe produced just 160m VHS compared with 300m units in 2000. The rapid decline in VHS during 2003 is expected to continue in 2004 and further losses are expected from VHS manufacturing.

Supply chain is key
The Media business is as much about distribution as manufacturing. Ensuring that DVD/VHS product is on retail shelves on the agreed launch date is critical. Deluxe Media has established some of the industry's leading-edge logistics management systems, providing customers with accurate, up-to-date tracking and management information which interfaces directly with customers' in-house systems. Deluxe manages all aspects of the distribution process on behalf of its clients, including distribution scheduling, warehousing, inventory management, packaging and delivery, returns processing and reporting. In 2003 Deluxe shipped a total of 523m units (VHS and DVD) compared with 443m units in 2002.

Complete service
In addition to replication and distribution, Deluxe Media is able to offer a range of additional media-related services to its customers. These include DVD compression, encoding and authoring (CEA), which is the complex process of first taking a digital video tape and converting it into a manageable file which can then be squeezed onto an optical disc, followed by the creation of an easy-to-use menu structure which is in keeping with the overall movie theme and design. Deluxe is now one of the largest providers of CEA in North America.

Market insight

Since its introduction in 1997, the global DVD market has grown dramatically. In 2003, it is estimated that total worldwide output was approximately 3.8bn discs compared with 2.6bn[14] the previous year – a growth of some 46%. North America remains the single largest market with over 50% share followed by Western Europe (25%), Asia (10%), Japan (6%) and the rest of the world (7%). The biggest share of the market is DVD-Video (86%) with the balance made up of the other DVD formats including DVD-ROM, DVD-Audio, SACD and Dual Disc products.

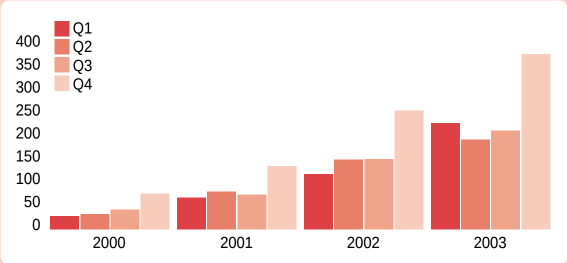


Source: Understanding & Solutions

The rapid decline VHS volume in 2003 has prompted a number of major US retailers, such as Best Buy, to reduce the shelf space given to VHS[15].

Market share
Unlike the VHS market where there are only three producers of any scale, Technicolor, Cinram/WAMO and Deluxe, the global DVD market is more fragmented. There are however three very large operators, Technicolor, Cinram/WAMO and Sony, with Deluxe as the fourth largest producer.

Seasonality
Like the VHS business, DVD sales and production are highly seasonal with the fourth quarter being the busiest period as retail customers stock up for Christmas. This is highlighted by the following chart showing quarterly DVD-video software shipments in North America:



Source: DVD Information Group

[14] Understanding & Solutions – DVD Supply Situation Quarter 4 Review (December 2003) – page 19
[15] Screen Digest – November 2003 p340

Gaming


Hard Rock

Deluxe

With 24,000 employees in over 11 countries, managing this key resource is critical not only to the continued success of each of its component businesses, but also that of the Group as a whole

Employees

The Group's programme of investment and development of its workforce continued during 2003. With over 24,000 employees worldwide, in 11 countries, operating in a variety of different markets, the Group encourages each of its business divisions to align closely the management of its human resources with that of the divisional business strategy. Some examples of how this works in practice are summarised below:

Gaming

The Gaming division has approximately 11,000 employees and is the largest individual division within the Group. For several years, even before the publication of The Gambling Review Report in 2001, the division has been preparing for the changes that may be required under a new regulatory environment. First, support functions that traditionally were bespoke for each business have progressively been brought together. Marketing, human resources, technology, purchasing, security, compliance and finance are now integrated functions supporting the whole breadth of the gaming business. On 1 January 2004 the final step was taken in the integration of our operating businesses when a single operational structure was introduced. Work is now under way to define operating practices for multi-product venues of the type expected to be permitted by the Draft Gambling Bill.

Second, in 2002 the division was given permission by the Gaming Board to operate a Management Conversion Development programme. This programme takes existing bingo and casino managers and cross-trains them in the product skills and legislation of both businesses, enabling them thereafter to manage multi-product venues with the necessary regulatory certification. While there has already been some success in moving general managers from one business to another, the Management Conversion Development programme provides a more structured and targeted process to facilitate such moves in the future.

To support more general management development, for the last three years Rank has been operating a Certificate in Management programme supported by Sunley Management Centre, part of Northampton University.

As we continue to move forward, additional management resources will be targeted at new product development. The first appointment of this type is a new director in charge of slot machines who joins us from South Africa.

Hard Rock

At Hard Rock, the continued focus on customer service and enhancing the overall restaurant experience means that Hard Rock's recruitment strategies remain dedicated to selecting the most qualified individual. Newly hired employees experienced an improved training programme in 2003 where the enhancement of the guest experience was the focus of attention and guest satisfaction scores rose considerably compared with the previous year. The business also worked hard to improve the employee life cycle by concentrating on retention tactics that include employee development and management succession planning.

The training of cafe managers has also been embraced by a number of Hard Rock's franchisees, including branded hotels and casinos which are able to draw upon the well-established training procedures and manuals which are all aimed at improving the overall customer experience.

Deluxe

The transformation of the Media business required a number of major organisational changes during the year. To manage the considerable employee issues associated with this process, a Career Pathing Team was charged with developing a plan of action to manage the reduced labour requirement for VHS production while at the same time managing a substantial increase in the requirement for DVD production. To address this, the team developed a flow chart of transferable job categories from VHS to DVD. By identifying those skills required in DVD and transferable skills within the existing VHS workforce, the team determined whether the required competencies already existed within the organisation so that an existing VHS employee could be transferred to a DVD job. Where there was no overlap, the team established a procedure for creating a career path for an employee which would most likely include cross-training.

This process has helped to mitigate the overall costs of the transition from VHS to DVD by reducing hiring and retraining costs, improving productivity as well as lowering redundancy costs.

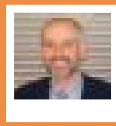
Health and safety

Each year the Group undertakes a thorough assessment of the operational risks facing its business divisions. Senior management in each division specifically considers health and safety issues as part of this exercise. Any actions that may be required to improve the control of health and safety risks are identified and then actioned.

Meetings of the risk management specialists in Europe and in the United States who are responsible for the co-ordination of health and safety standards across the Group take place at least twice each year. The activities of these groups promote the sharing of good health and safety practice and the development of a strong network of safety professionals across the divisions.

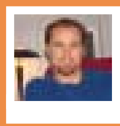
Additionally, the Board receives an annual report on health and safety standards in all divisions, together with details of targets that have been set to maintain and improve safety performance in the following year.

Employees



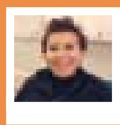
Gaming: Chris Robson, age 45
Joined the Group: 1999
Current position: General Manager, Mecca Bingo

Chris joined the Group following the acquisition of a casino where he was Assistant General Manager in 1999. Staying with the casino side of the Gaming division until 2002, he then moved across into bingo as General Manager of the Mecca Club in Wallsend in Newcastle. Drawing upon his experience in casinos, Chris has found that there are a number of common challenges for both businesses and is excited about the prospect of combining bingo and casinos in a post-deregulatory environment.



Hard Rock: Jim Knight, age 36
Joined the Group: 1991
Current position: Director of Training, School of Hard Rocks

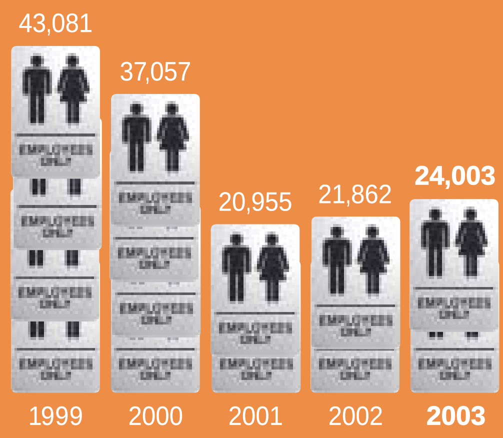
Jim has been at Hard Rock for 13 years. Having worked his way up the ranks he was a driving force behind the development of Hard Rock's in-house training programmes including "Rock 101" which is dedicated to enhancing the performance of Hard Rock's cafe managers and developing their management experience in true Hard Rock style. Jim has also been closely involved with introducing the training concepts to franchisees and branded hotels, something which was warmly welcomed by Sol Meliá prior to the launch of the Hard Rock Hotel in Chicago.



Deluxe: Maria Luz, age 33
Joined the Group: 1998
Current position: Team Leader, Sortation, Deluxe Media

Maria joined the Group six years ago and began working at Deluxe Media's Northbrook location before moving to the Pleasant Prairie facility in Wisconsin. Maria spent some time in Europe developing and improving the VHS and DVD sortation processes before returning to the US, again at Pleasant Prairie.

Number of employees





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The Board

1 **Alun Cathcart** **Non-executive Chairman**
Joined Rank as Chairman in May 2001. Age 60.
Alun Cathcart is also Deputy Chairman of Avis Europe Plc, Deputy Chairman of Belron International Limited, and a Director of Tikkun UK Limited, a registered charity for the betterment of children in South Africa. He first joined Avis Europe in 1980, and as Chief Executive led the company through two successful flotations, in 1986 and again in 1997. He was also Chairman of Selfridges Plc from 1998 to November 2003.

2 **Mike Smith** **Chief Executive**
Appointed Chief Executive in April 1999. Age 57.
Mike Smith is also non-executive Chairman of communisis plc. He began his career at the Ford Motor Company, following which he held senior positions at both British Leyland and Grand Metropolitan plc before being appointed an executive Director of Bowater and then Ladbroke Group (now Hilton Group plc) in 1994, where he was Chief Executive of that company's betting and gaming division.

3 **Ian Dyson** **Finance Director**
Appointed Finance Director in September 1999. Age 41.
Ian Dyson is also a non-executive Director of Misys Plc. He was formerly Group Financial Controller of Hilton Group plc and previously Finance Director of the Le Meridien Hotels division of Forte Plc, prior to which he was a partner of Arthur Andersen.

4 **Peter Jarvis, CBE** **Non-executive Director**
An independent non-executive Director since 1995. Age 62.
Peter Jarvis began his career at Unilever and subsequently joined Whitbread Plc in 1976, becoming its Group Chief Executive in 1990 until his retirement in 1997. He has been a non-executive Director of Burton Group Plc and Barclays Bank Plc and until December 2003 was Chairman of Debenhams Plc.

5 **Oliver Stocken** **Non-executive Director**
An independent non-executive Director since 1998. Age 61.
Oliver Stocken is also Deputy Chairman of 3i Plc, non-executive Chairman of Rutland Plc, and a non-executive Director of Pilkington Plc, GUS Plc, Novar Plc and Stanhope Plc. He joined Barclays Merchant Bank in 1979 as head of its Corporate Finance Division and, following various senior positions in investment banking, in 1993 was appointed Group Finance Director of Barclays Plc, from which he retired in 1999.

6 **John Sunderland** **Non-executive Director**
An independent non-executive Director since 1998. Age 58.
John Sunderland is Executive Chairman of Cadbury Schweppes Plc, Deputy President of the Confederation of British Industry and President of both The Incorporated Society of British Advertisers and the UK Food & Drink Federation. He joined Cadbury Schweppes in 1968 and, following a succession of senior positions in the UK and overseas, was appointed its Group Chief Executive in September 1996, until May 2003.

7 **Charles Cormick** **Company Secretary**

Executive Committee

Mike Smith

Ian Dyson

David Boden
Appointed Managing Director of Gaming in January 1998 and to the Executive Committee in January 1999. Formerly Managing Director of Grosvenor Casinos. Joined Rank in 1977. Director of The National Bingo Game Association Limited. Age 47.

Charles Cormick
Joined Rank as Company Secretary in 1995. A solicitor, and formerly Company Secretary of Lex Service PLC. Age 52.

Hamish Dodds
Appointed to the Executive Committee in March 2004 as President and CEO of Hard Rock division. Joined Rank in 2004; was previously CEO of CABCORP. Age 47. Based in Orlando, Florida.

Cyril Drabinsky
Appointed to the Executive Committee in September 2001 as President, Deluxe Film Worldwide. Formerly President, Deluxe Laboratories Inc. Joined Rank in 1987. Age 46. Based in Toronto, Ontario.

Peter Pacitti
Appointed to the Executive Committee in September 2001 as President, Deluxe Media Services Worldwide. Formerly Managing Director, Deluxe Video Services Europe. Joined Rank in 1981. Age 46. Based in Chicago, Illinois.

Christine Ray
Appointed to the Executive Committee as Group Human Resources Director in February 2001. Formerly Human Resources Director of Rank's Holidays Division, having joined Rank following the acquisition of Mecca Leisure in 1990. Age 56.

Audit Committee
Oliver Stocken – Chairman
Peter Jarvis
John Sunderland

Finance Committee
Alun Cathcart – Chairman
Ian Dyson
Mike Smith

Nominations Committee
Alun Cathcart – Chairman
Peter Jarvis
Mike Smith
John Sunderland

Remuneration Committee
Peter Jarvis*
Oliver Stocken
John Sunderland**

*Chairman to 27 April 2004
**Chairman from 28 April 2004

Operating and Financial Review

Summary of results

	Turnover		Profit before tax*	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Gaming**	**865.7**	518.4	**117.2**	104.8
Hard Rock	**234.0**	242.7	**23.1**	27.6
Deluxe	**788.5**	704.2	**93.8**	90.0
US Holidays	**37.7**	43.2	**6.0**	8.1
Central costs and other	**–**	–	**(17.1)**	(9.9)
Continuing operations including acquisitions	**1,925.9**	1,508.5	**223.0**	220.6
Net income from associates and joint ventures			**0.4**	3.3
Managed businesses' interest			**(29.7)**	(22.6)
Profit before tax, exceptional items and goodwill amortisation			**193.7**	201.3
Amortisation of goodwill			**(6.4)**	(1.0)
Profit before tax and exceptional items			**187.3**	200.3
Exceptional items			**(58.0)**	(2.3)
Profit before tax			**129.3**	198.0
Basic earnings per share before goodwill amortisation and exceptionals			**20.1p**	20.1p
Basic earnings per share before exceptional items			**19.2p**	19.9p
Basic earnings per share			**14.3p**	19.6p
Dividend per share			**13.9p**	13.2p

*before exceptional items and goodwill amortisation
**2002 turnover restated following the acquisition of Blue Square (see Accounting Policies – page 50)

Group turnover was 28% ahead of 2002 after including a £351.2m contribution from acquisitions, in particular Blue Square, which was acquired in January 2003. Turnover from continuing operations was up 4%, reflecting further growth in Gaming and Deluxe, offset by a weaker performance at Hard Rock and adverse currency movements. The movement in exchange rates between 2002 and 2003 reduced turnover by £26.4m.

Group operating profit before goodwill amortisation and exceptional items was up 1%, despite adverse currency movements which cost £4.6m. Gaming delivered another year of record profits with both Mecca Bingo and Grosvenor Casinos continuing to benefit from the investments made in new facilities and gaming products. The acquisition of Blue Square, and the accompanying operating synergies with Rank Interactive Gaming, helped to turn a £5.0m loss in 2002 into a £1.9m profit, before goodwill amortisation and exceptional items. Deluxe Film operating profit was up 15%, despite the loss of the Universal film contract during the year, reflecting continued strong underlying footage growth and the full year benefit of acquisitions made in 2002. In Deluxe Media, overall volumes in both manufacturing and distribution were up strongly, but, as expected, the impact of the transition from VHS to DVD led to lower operating profits for the year. The war in Iraq and the lack of any discernible upturn in travel and tourism meant that Hard Rock experienced another challenging year. Operating profit was down to £23.1m from £27.6m in 2002.

Managed businesses' interest payable before exceptional items was £7.1m higher than last year at £29.7m, largely reflecting higher debt levels, principally as a result of the acquisitions of Blue Square and Disctronics.

Earnings per share before goodwill amortisation and exceptional items of 20.1p was in-line with last year, reflecting a further reduction in the effective tax rate to 28.9% (2002 – 30.3%).

The Group has recorded a net pre-tax exceptional charge of £58.0m, offset by a tax credit of £26.1m. The pre-tax charge comprises restructuring costs in Deluxe Media of £35.8m, integration costs at Blue Square of £6.0m, a provision of £9.3m in respect of certain long-standing legal matters in the US (previously disclosed as contingent liabilities), costs associated with the redemption of the £125m 2008 bonds of £11.5m, and a credit of £4.6m from the release of certain disposal provisions which are no longer required. The tax credit of £26.1m includes £12.7m in respect of tax liabilities provided for on the previous disposal of the UK Holidays business which are no longer required.

The following table sets out the divisional results and profit before tax, stated after exceptional items and goodwill amortisation:

	Profit before tax 2003 £m	2002 £m
Gaming	**108.7**	104.8
Hard Rock	**23.1**	27.6
Deluxe	**54.1**	82.8
US Holidays	**6.0**	8.1
Central costs and other	**(26.4)**	(9.9)
Continuing operations including acquisitions	**165.5**	213.4
Net income from associates and joint ventures	**0.4**	1.3
Non-operating items	**4.6**	5.9
Managed businesses' interest	**(41.2)**	(22.6)
Profit before tax	**129.3**	198.0

Gaming

		Turnover		Operating profit*	
		2003 £m	2002 £m	**2003 £m**	2002 £m
Mecca Bingo	– UK	**233.1**	231.7	**72.6**	72.4
	– Spain	**24.6**	18.6	**6.8**	4.6
		257.7	250.3	**79.4**	77.0
Grosvenor Casinos	– UK	**173.7**	163.3	**32.0**	29.9
	– Belgium	**9.6**	8.5	**0.3**	(0.2)
		183.3	171.8	**32.3**	29.7
Rank Leisure Machine Services		**52.8**	50.0	**3.6**	3.1
Blue Square**		**371.9**	46.3	**1.9**	(5.0)
		865.7	518.4	**117.2**	104.8
Goodwill amortisation				**(2.5)**	–
Total				**114.7**	104.8

*before exceptional items
**2002 turnover restated following the acquisition of Blue Square (see Accounting Policies – page 50)

The Gaming division delivered another year of double digit growth in 2003 with operating profit before goodwill amortisation and exceptional items of £117.2m, a 12% increase over the previous year.

Mecca Bingo

	2003	2002	Change %
UK Bingo statistics			
Admissions (000s)	**21,066**	22,678	(7)
Spend per head (£)	**11.06**	10.22	8

In the UK, the well-established trends at Mecca Bingo of lower admissions and higher spend per head continued. Turnover increased by 1% in the year and was affected in the fourth quarter by the removal of box office fees following the change to a gross profits tax regime at the end of October 2003. Operating profit was marginally ahead of 2002 at £72.6m, reflecting a very healthy 31% profit margin.

The growth in revenue at Mecca continues to be driven by the success of interval games and machines with an increase in spend per head of 11% and 9% respectively. The split of revenue by activity is shown on the next page.

Analysis of UK bingo turnover

	2003 £m	2002 £m	Change %
Main stage bingo	**46.0**	47.1	(2)
Interval games	**105.8**	102.8	3
Gaming machines	**57.2**	56.8	1
Food, beverage and other	**24.1**	25.0	(4)
Total	**233.1**	231.7	1

By the end of 2003, the rollout of jackpot machines across the Mecca estate was virtually complete with a total of 353 jackpot machines installed, compared with 210 at 31 December 2002. A number of new gaming machines are currently being trialled under Section 21 of the Gaming Act in certain Mecca clubs. The early performance statistics have been encouraging and, if ultimately successful, the plan will be to roll out a number of these machines across the entire UK estate.

The clubs at York and West Bromwich were relocated to new purpose-built facilities during the year. Since the start of 2004, the club at Burton has also been moved to new premises and others at Bolton, Ellesmere Port, Glasgow and Edinburgh will be relocated before the year-end.

In Spain, Mecca continued to develop with good like-for-like growth in both revenue and operating profit, plus full year contributions from the three clubs acquired during 2002. A further club at Santiago de Compostela was added in October 2003, taking the total number of clubs in Spain to ten. The Spanish operation contributed £6.8m of operating profit.

Grosvenor Casinos
Turnover at Grosvenor Casinos was up by 6% and operating profit was up by 7%, despite difficult trading conditions in the London market during the year. The provincial casinos continued their strong growth trend with profits up a further 16% in the year.

	Turnover		Operating profit	
	2003 £m	2002 £m	2003 £m	2002 £m
UK				
London – upper	**19.0**	23.2	**3.6**	6.0
London – other	**54.2**	55.5	**10.4**	11.7
Provincial	**91.5**	83.3	**26.3**	22.7
Hard Rock	**9.0**	1.3	**(1.6)**	(2.1)
Overheads	**–**	–	**(6.7)**	(8.4)
	173.7	163.3	**32.0**	29.9

	Admissions		Handle per head		Win	
	2003 000s	2002 000s	2003 £	2002 £	2003 %	2002 %
UK						
London – upper	**55**	54	**1,901**	2,062	**18.2**	20.9
London – other	**604**	647	**486**	469	**17.3**	17.1
Provincial	**2,667**	2,627	**181**	166	**16.5**	16.6
Hard Rock	**354**	74	**124**	79	**17.5**	16.7

Profits at the Group's two upper end London casinos – the Clermont and the Park Tower – were below 2002 due largely to the impact of the major refurbishment of the Park Tower during the first half of the year and a lower win percentage at both casinos in the second half of the year. Since reopening in July with 40% additional gaming space, admissions and handle have increased substantially at the Park Tower.

Along with the rest of the market, the Group's three mid-market London casinos – the Victoria, the Connoisseur and the Gloucester – were affected by lower customer volumes in the run up to and following the war in Iraq. Admissions were down 7% and although handle per head was up 4%, overall handle was down resulting in lower levels of both turnover and operating profit.

The Group's provincial casinos enjoyed another strong year with turnover up 10% and operating profit up 16%. Since 2000, operating profits in this business have doubled as a result of the continuous investment in relocations, new licences and product development. This combination of initiatives succeeded again in increasing both admissions and handle per head in 2003. Whilst the relocation programme continues apace, the exceptional uplift in performance from the introduction of electronic roulette and the other new products during 2002 has now been realised. This factor, together with increased competition in certain key locations, resulted in a slowdown in the rate of growth in admissions and handle during the second half of the year.

The two Hard Rock casinos continued to make good progress in 2003. Both casinos enjoyed strong growth in attendance and handle and the London casino moved into profit during the second half of 2003 and is now the Group's second highest in terms of attendance. Both casinos are expected to benefit from deregulation and the ability to advertise the Hard Rock Casino concept.

Blue Square

Since its acquisition in January 2003 and integration with Rank Interactive Gaming, Blue Square has grown at an impressive rate. On a pro forma basis, assuming that the business had been owned for the full 12 months, stakes increased by 57% and gross win increased to £23.1m (2002 – £15.8m). With the launch of Meccagames.com, the introduction of a single account for both Blue Square and Meccagames customers, as well as the introduction of new games such as "Aces High", the number of active customers[1] increased by 50% compared with 2002.

	Turnover*		Gross win*	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Internet	**178.5**	142.9	**11.1**	10.8
Telebet	**77.3**	48.0	**3.9**	1.9
Games	**134.1**	57.2	**8.1**	3.1
Total	**389.9**	248.1	**23.1**	15.8

*restated to show Blue Square as if Rank had owned the business for the full year in both 2002 and 2003

[1]someone who has placed a bet within the last 12 months

The realisation of £5.0m of synergy benefits and cost savings from the acquisition resulted in a £1.9m operating profit before goodwill amortisation and exceptional items, compared with a £5.0m reported loss in 2002.

Rank Leisure Machine Services

Operating profit at Rank Leisure Machine Services increased during the year to £3.6m (2002 – £3.1m). On 10 February 2004, the Group completed the disposal of this business to Gamestec Leisure Limited for £30.0m in cash.

Hard Rock

	Turnover		Operating profit	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Owned cafes	**222.0**	230.4	**24.4**	29.2
Cafe franchise and other income	**6.3**	6.7	**5.8**	6.2
Hotel franchise and other income	**3.9**	3.3	**5.2**	3.8
Territory sales	**1.8**	2.3	**1.8**	2.3
Advertising and promotion	**–**	–	**(0.7)**	(1.4)
Overheads	**–**	–	**(13.4)**	(12.5)
	234.0	242.7	**23.1**	27.6

Despite an encouraging performance in food and beverage revenues in the owned cafes and increased income from hotel franchises, the absence of any significant recovery in international travel and tourism continued to undermine merchandise sales and, together with negative currency movements, resulted in a reduction in operating profit to £23.1m (2002 – £27.6m).

Like-for-like sales for the year were down 3.1%. Whilst food and beverage sales were up 2.4%, merchandise sales were down 11.2%. The shortfall in merchandise sales remains concentrated in the major tourist locations such as Paris, Rome, London, New York and Orlando.

Hard Rock like-for-like cafe sales %

	Food and beverage %	Merchandise %	Total %
To 31 December 2003			
North America	3.1	(10.5)	(2.4)
Europe	(0.2)	(13.8)	(5.6)
Total	**2.4**	**(11.2)**	**(3.1)**
8 weeks to 22 February 2004	3.5	(8.9)	(0.5)

The like-for-like sales trends have been relatively steady since June 2003 with a marginal improvement towards the end of the year. In the eight weeks to 22 February 2004 like-for-like sales were down only 0.5%.

Profit from cafe franchise and other income was down 6% to £5.8m and was impacted by the outbreak of the SARS virus which particularly affected the cafes in the Far East. Hotel franchise and other income contributed £5.2m in 2003, reflecting a good performance by the Orlando hotel and dividends from the Group's interest in the Universal Rank Hotel partnership in Orlando. Territory fees included up front fees from the Biloxi casino and from the Hard Rock Cafe planned at Foxwoods. Central overheads increased due to one-off redundancy costs of £1.1m associated with the restructuring announced at the beginning of 2003.

The strategy of continuing to extend the Hard Rock brand into hotels and casinos took a major step forward during 2003 with the formation in June of a joint venture with Sol Meliá to develop Hard Rock Hotels in the Americas and Europe. The Hard Rock Hotel in Chicago was the first hotel to open as part of the joint venture and is already attracting large amounts of media and customer interest. The joint venture has announced the development of a second hotel in San Diego, which is scheduled to open in 2006 and further potential projects are in the pipeline.

The first of the two Seminole Indian Nation developments, both branded Hard Rock, is expected to open in Tampa next month with 90,000 square feet of gaming, 1,500 slot machines, 55 poker tables and an 800-seater bingo facility; a 250 room hotel is also expected to open in March. The second development, in Hollywood, Florida, with 115,000 square feet of gaming, 2,000 slots, 65 poker tables, an 800-seater bingo facility and a 500 room hotel, is scheduled to open in May of this year. Elsewhere, the first phase of financing for a US$235m Hard Rock Casino and Hotel in Biloxi, Mississippi was completed at the beginning of 2004 and this is expected to open during the third quarter of 2005.

Deluxe

	Turnover		Operating profit*	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Film Services	**396.4**	367.5	**72.3**	62.6
Media Services	**392.1**	336.7	**21.5**	27.4
	788.5	704.2	**93.8**	90.0
Goodwill amortisation			**(3.9)**	(1.0)
			89.9	89.0
Associates and joint ventures			**0.4**	1.8
			90.3	90.8

*before exceptional items

Deluxe produced another strong result in difficult circumstances with turnover up 12% and operating profit up 4%. The overall result was achieved despite adverse currency movements which reduced operating profit by £3.5m, and reflected a very strong performance at Film, offset by the anticipated reduction in profit at Media, which was impacted by the continued transition from VHS to DVD.

Film Services

	Turnover		Operating profit	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Film Laboratories	**372.7**	366.6	**63.9**	62.3
Other services	**23.7**	0.9	**8.4**	0.3
	396.4	367.5	**72.3**	62.6
Goodwill amortisation			**(1.6)**	(0.1)
Total			**70.7**	62.5

Film Services had an outstanding year in 2003 with operating profit up 15%. Film footage was up 3% despite the loss of the Universal film contract in March and the smaller Fox International contract in October 2003. Excluding these two contracts, contracted footage was up 10%. The growth in volume was due to the continued trend of the increasing number of prints per title, as studios move to ever wider release patterns, together with the addition of a number of contracts from independent film producers. Major titles produced during the year included The Lord of the Rings: The Return of the King, X-Men United, Charlie's Angels 2, and Master and Commander. The outlook for 2004 for Film Laboratories will be affected by the full year impact of contract losses but the schedule looks promising and accordingly we would expect underlying volume growth to mitigate the impact of these contract losses.

Other services include the results of ETS and Capital FX and benefited in 2003 from a full year's contribution from both businesses. ETS, the physical film distribution business, became a wholly-owned subsidiary at the end of 2002. Additional contract wins resulted in strong growth in operating profit. Capital FX has continued to build on its position in the UK laser sub-titling and digital effects market. Deluxe's involvement in the digital arena is supplemented by its 20% interest in EFILM, one of Hollywood's leading providers of digital intermediates, which is accounted for as an associate.

All of Deluxe's film contracts as at 31 December 2003 are secure until at least 2005, with 82% of 2003 contracted volume secure until at least 2006, with a weighted average contract life of 49 months.

Media Services

	Turnover		Operating profit*	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Video duplication	**111.2**	178.9	**(8.9)**	18.1
DVD/CD replication	**150.6**	55.7	**13.7**	3.2
Distribution services	**106.8**	90.8	**11.5**	5.3
Digital services	**23.5**	11.3	**5.2**	0.8
	392.1	336.7	**21.5**	27.4
Goodwill amortisation			**(2.3)**	(0.9)
Total			**19.2**	26.5

*before exceptional items

The Group made significant progress towards completing the transition of the Media business in 2003. The transformation of the business from a pure VHS duplicator and distributor to a fully integrated DVD compression and authoring, replication and distribution business is now all but complete.

Key events during the year included the acquisition of Disctronics in July 2003, providing important European manufacturing capacity and making the Group one of the world's largest DVD manufacturers; the integration and rationalisation of the Ritek acquisition, which involved the relocation of plant, equipment and employees to a single production facility in Arkansas; and the commencement of a restructuring of the VHS business in Europe including the announcement to close the operations in Italy, Germany and Portugal.

The rate of decline of VHS continued to accelerate during the year with 160m units (2002 – 224m) being produced, leading to a decline in turnover of 38% and an operating loss of £8.9m. In contrast, the DVD/CD side of the business continued to make excellent progress. Total volume increased to 162m discs (2002 – 69m), revenue grew by 270% and operating profit increased fourfold with major titles produced in 2003 including the Indiana Jones box set and Seabiscuit. While technological advances have meant that the manufacturing costs are typically lower for DVD than VHS, the relative pricing and costs associated with the transition from VHS to DVD led to lower combined profits in VHS and DVD manufacturing. The global market for DVD grew by 46% in 2003 and is expected to continue to grow strongly.

The growth in demand for DVD was the major factor behind the growth in the distribution business where total volumes increased by 18% to 523m units (2002 – 443m units). Revenues increased by 18% to £106.8m (2002 – £90.8m) and operating profit more than doubled to £11.5m (2002 – £5.3m).

Digital Services doubled its revenues and grew profit to £5.2m, with particularly strong performance in the compression, encoding and authoring business.

US Holidays
The US Holidays business generated operating profit of £6.0m (2002 – £8.1m) and net cash of £7.8m (2002 – £13.0m).

Central costs and other

	2003 £m	2002 £m
Central costs	**(15.9)**	(14.3)
Other	**(1.2)**	4.4
	(17.1)	(9.9)

Central costs and Other increased by £7.2m in the year. This is due to increased insurance costs and a net £1.2m expense in Other compared with a £4.4m profit in 2002.

Associates and joint ventures

	2003 £m	2002* £m
Deluxe associates and joint ventures	**0.4**	1.8
BL Rank Properties (discontinued in 2002)	**–**	1.5
	0.4	3.3

*before exceptional items

Deluxe associates and joint ventures comprises the 20% interest in EFILM and the investment in Atlab. The acquisition of the remaining 50% of ETS on 31 December 2002 resulted in that business being consolidated within Deluxe.

Managed businesses' interest*

	2003 £m	2002 £m
Interest payable and other charges	**44.8**	33.0
Interest receivable	**(13.0)**	(9.5)
Profit on disposal of Seminole Bonds	**(2.1)**	–
Net profit on redemption of fixed rate debt	**–**	(0.9)
	29.7	22.6
Average interest rate	**5.4%**	5.5%

*before exceptional items

Managed businesses' interest increased to £29.7m reflecting the acquisitions of Blue Square and Disctronics, together with deferred consideration relating to previous acquisitions. The increase in interest cost was offset by a £2.1m profit on disposal of the Group's US$25m investment in bonds acquired as part of the original financing for the two Seminole Hard Rock hotel and casino developments in Florida.

Taxation
The effective tax rate, before exceptional items, is 28.9% (2002 – 30.3%). The pre-exceptional current tax rate is 7.2% (2002 – 15.6%). Cash tax liabilities relating to 2003 profits benefited from tax losses in the US and the UK.

Dividend
A proposed final dividend of 9.3p per Ordinary share will be paid on 7 May 2004 to those shareholders on the register on 13 April 2004.

Exchange rates

The average exchange rates used and the net translation effect of changes in average exchange rates between 2002 and 2003 are summarised in the next table.

	Average exchange rate		Impact on 2003	
	2003	2002	**Turnover £m**	**Operating profit £m**
US dollar	**1.63**	1.51	**(45.8)**	**(7.0)**
Canadian dollar	**2.32**	2.40	**2.4**	**0.1**
Euro	**1.45**	1.59	**15.2**	**2.2**
Other			**1.8**	**0.1**
			(26.4)	**(4.6)**
Gaming			**2.9**	**0.6**
Hard Rock			**(11.1)**	**(1.2)**
Deluxe			**(15.1)**	**(3.5)**
US Holidays			**(3.1)**	**(0.5)**
			(26.4)	**(4.6)**
Interest				**2.0**
Net impact on profit before tax				**(2.6)**

Exceptional items

	£m
Exceptional items within operating profit	
– Deluxe Media Services restructuring	**(35.8)**
– Blue Square restructuring	**(6.0)**
– Legal provision	**(9.3)**
Non-operating exceptional items	
– Release of disposal provisions	**4.6**
Exceptional items within net interest payable and similar charges	
– Premium on redemption of £125m Eurobond	**(11.5)**
	(58.0)
Tax	
– Credit on exceptional items above	**13.4**
– Release of disposal provisions	**12.7**
	(31.9)

The Deluxe Media Services' restructuring charge of £35.8m comprises:

	£m
Cost of closure of DVD facilities	**15.4**
Impairment charge in connection with VHS assets	**20.4**
Total	**35.8**

In North America, the transition from VHS to DVD involved the gradual relocation of DVD replication capacity from California to replace existing VHS capacity in Arkansas. This relocation programme is now complete and, as a consequence, the DVD plants in Ontario and Carson, California have been closed. This gave rise to an exceptional charge of £15.4m comprising redundancy costs of £3.2m, asset write-offs of £3.9m and property-related costs of £8.3m.

The decline in VHS volumes and the consequent restructuring of Arkansas for DVD has led to a reassessment of the carrying value of the Group's VHS assets. This has resulted in an impairment charge of £20.4m being made against those assets.

In Europe, the decline in VHS has lagged behind US trends but volume was 20% down in 2003. As a consequence, subsequent to the year-end, the decision was taken to close the duplication plants in Germany, Italy and Portugal and concentrate duplication into just three locations in the UK, Spain and Sweden. These closures, together with further actions that will be taken to restructure the European VHS business, are expected to give rise to a further exceptional item of around £10m, which, in accordance with FRS 12 "Provisions, Contingent Liabilities and Contingent Assets", will be booked in 2004.

Blue Square was acquired for £65.0m in January 2003. The business was integrated with Rank Interactive Gaming, generating £5.0m of annualised operating cost savings. The cost of achieving these savings was £6.0m and this has been included as an exceptional charge in these results. The charge includes redundancy costs of £3.4m and asset write-offs of £2.6m.

As previously described in the contingent liabilities note to the Group accounts, the Group has been subject to a number of legal actions in the US, including class action suits. Since 30 June 2003, one of these actions has been settled and progress has been made on other actions, such that the Directors are now in a position to make a reasonable estimate of the possible liabilities associated with these actions. Accordingly, a provision of £9.3m has been included as an exceptional item in the results. Additional information required to be disclosed by FRS 12 is not disclosed on the grounds that it can be expected to prejudice the outcome of the outstanding actions concerned.

During the course of 1999 and 2000, the Group made disposals totalling approximately £1.4bn. Various provisions which were made at the time of the disposals are now no longer deemed to be necessary, resulting in a write-back of £4.6m.

On 8 December, the Company redeemed all the Group's £125m 7.25% bonds so as to allow the subsequent redemption of the Group's outstanding convertible preference shares. This gave rise to a premium on redemption of the bonds totalling £11.5m.

The tax credit on the exceptional charge is £13.4m. In addition, an exceptional tax credit of £12.7m has been recognised in respect of tax liabilities provided on the disposal of the Holidays business which are no longer required.

Cash flow

	2003 £m	2002 £m
Cash inflow from operating activities		
Before Deluxe contract advances	**309.2**	242.3
Deluxe contract advances, net of repayments	**(17.3)**	(135.0)
	291.9	107.3
Capital expenditure	**(111.4)**	(117.9)
Fixed asset disposals	**5.7**	21.0
Operating cash flow	**186.2**	10.4
Interest, tax and dividend payments	**(172.8)**	(146.9)
Free cash flow	**13.4**	(136.5)
Acquisitions and investments*	**(123.6)**	(57.5)
Disposals (including sale and leaseback transactions)	**4.1**	18.9
	(106.1)	(175.1)
Issue of Blue Square convertible loan stock	**65.0**	–
Cash outflow	**(41.1)**	(175.1)

*including £65.0m of Blue Square debt

The Group generated £13.4m of cash before acquisitions and disposals but after interest, tax and dividends (2002 – outflow of £136.5m). This reflects a much reduced net outflow on Deluxe contract advances and a £30.6m inflow from working capital.

Capital expenditure

	2003 £m	2002 £m
Gaming (excluding Rank Leisure Machine Services)	**44.8**	40.0
Hard Rock	**12.4**	26.2
Deluxe	**33.7**	30.4
US Holidays	**1.0**	1.3
	91.9	97.9
Rank Leisure Machine Services*	**19.5**	20.0
Total	**111.4**	117.9

*the depreciation charge associated with RLMS in 2003 was £17.8m (2002 – £16.6m)

Acquisitions and investments*

	2003 £m
Blue Square	**64.3**
Disctronics	**27.6**
Other	**7.4**
Deferred consideration	**17.8**
Purchase of subsidiaries (net of cash acquired)	**117.1**
Purchase of investments	
– Investment in Hard Rock Hotels	**2.6**
– Rank Ordinary shares	**3.7**
– Other	**0.2**
Total	**123.6**

*cost of investment and related fees, offset by cash acquired

On 27 January 2003, the Group completed the acquisition of Blue Square for a total consideration of £65.0m in unlisted, unsecured convertible loan stock. The loan stock, which became redeemable from the end of July 2003, is convertible into Rank Ordinary shares at a price of 282p per £1 of loan stock held. Full conversion of the loan stock which, if not converted beforehand will be redeemed for cash on 31 December 2004, would result in the issue of 23m new Rank Ordinary shares.

In July 2003 the Group completed the acquisition of Disctronics, one of the largest independent DVD and CD replicators in Europe, for a total consideration of £34.3m, of which £6.7m relates to 2004 and 2005.

Net debt

	2003 £m
Opening net debt	**(399.1)**
Free cashflow	**13.4**
Acquisitions, investments and disposals	**(119.5)**
Net redemption of convertible preference shares	**(211.0)**
Foreign currency translation	**27.5**
Other	**(11.8)**
Closing net debt	**(700.5)**

Net debt at 31 December 2003 was £700.5m compared with £399.1m at 31 December 2002. Net debt as a percentage of shareholders' funds was 133% compared to 53% at 31 December 2002 reflecting the redemption of the convertible preference shares.

Pensions – SSAP 24

Rank continues to account for its pension costs under SSAP 24. Pension costs in the year were £7.0m; this reflects contributions offset by £4.7m of SSAP 24 surplus amortisation relating to the 2001 actuarial valuation of the Rank Pension Plan ("the Plan").

At 5 April 2001, the market value of the Plan's assets of £589.9m exceeded the market value of the Plan's liabilities by 9%, giving a surplus of £49.2m. The next actuarial valuation of the pension fund is scheduled for April 2004.

Pensions – FRS 17

In accordance with the provisions of FRS 17 "Retirement Benefits", at 31 December 2003 the deficit on this plan would be £64.8m (2002 – £90.9m). The reduction in the deficit includes a £49.1m credit due to the effect of changing the assumption regarding discretionary pension payments from 1.25% to nil.

Treasury policy

Rank seeks to achieve certainty of value on its foreign currency purchases and sales by buying or selling forward a portion of its estimated net currency requirements up to a year ahead, or longer where an external currency exposure exists, or is forecast to exist. Balance sheet currency exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset position with currency borrowings or through the use of currency swaps.

Rank seeks to protect itself against material adverse movements in interest rates by undertaking controlled management of the interest rate structure on Group investments and borrowings. This exposure is managed by fixing interest rates on a portion of the Group's borrowings dependent on the level of gearing.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury departments, under close management direction. The treasury function is not operated as a profit centre.

Rank uses off-balance sheet financial instruments, including foreign exchange forward contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. Off-balance sheet financial instruments are only used to hedge underlying commercial exposures. Therefore, while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on foreign exchange forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest swap contracts is included in net interest expense.

Further information on borrowings and financial instruments is contained in notes 18 and 19 to the accounts.

Directors' Report

The Directors submit their report and statement of accounts for the year ended 31 December 2003.

Principal activities and business review
Rank is one of the UK's leading leisure and entertainment companies and an international provider of services to the film industry. In 2003, leisure and entertainment activities included casinos and bingo clubs, and Hard Rock Cafes and global rights to the Hard Rock brand. Rank also owns film processing and video and digital versatile disc ("DVD") duplication and distribution facilities, branded Deluxe. Rank operates primarily in the UK and North America, although it also has activities in continental Europe and other parts of the world.

In January 2003, the Company acquired Blue Square Limited, one of the UK's leading internet and telephone betting businesses, for a consideration of £65.0m in unlisted, unsecured loan stock convertible into Rank Ordinary shares at 282p. In July 2003, the Company's subsidiary, Deluxe Global Media Services Inc, acquired Disctronics, one of the largest independent DVD and CD replicators in Europe, for a total consideration of £34.3m.

Since the year-end, Rank has sold the business, assets and liabilities of Rank Leisure Machine Services Limited and Rank Seasonal Amusements Limited for a total consideration of £30.0m.

An analysis of turnover, profit, operating assets and net cash flow by business activity is given in note 1 on page 52. The Group's continuing activities and businesses are reported on in the Operating and Financial Review.

Result and equity dividends
Profit before tax for the year was £129.3m (2002 – £198.0m profit). Profit for the year after tax and minority interests was £101.7m (2002 – £136.7m profit).

The Directors recommend a final dividend of 9.3p per Ordinary share which, together with the interim dividend of 4.6p already declared, makes a total for the year of 13.9p per Ordinary share (2002 – 13.2p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 7 May 2004 to those shareholders whose names are on the register on 13 April 2004. Retained profit for the year of £1.8m (2002 – £37.5m profit) has been transferred to reserves.

Directors
The current Directors of the Company are listed on page 23 and all of them were Directors of the Company throughout the year. The Company is satisfied that each non-executive Director is able to devote the amount of time required to attend to the Company's affairs.

Peter Jarvis (current Chairman of the Remuneration Committee and a member of the Audit Committee) and Alun Cathcart will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-appointment. Peter Jarvis does not have a service agreement with the Company; Alun Cathcart has a service agreement with the Company, terminable on 12 months' notice.

The interests of the Directors in the shares of the Company, together with their remuneration and, where applicable, their service agreements, are detailed in the Remuneration Report. Biographical details of the Directors are given on page 23.

Human resources
The Company recognises that the contribution made by its employees is crucial to the success of each of its businesses. Substantial investment is therefore made in the training, development and motivation of staff with particular attention to ensuring customer satisfaction through the consistent achievement of high standards of service and delivery of quality products.

Employee involvement in the direction and objectives of the business is encouraged through the use of incentive schemes to focus employees on the key performance indicators of each business. In addition, communication and consultation programmes exist at site, company and Group level.

The Company believes it benefits substantially from having a diverse workforce and therefore endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

Health and safety
The Board receives regular reports on health and safety matters. The Chief Executive has been nominated by the Board as the main Board Director responsible for health and safety across the Group. The Group requires each division to develop and implement its own safety policy, organisation and arrangements, to respond to the particular health and safety risks in that division. The Group also requires an annual report from each division on health and safety performance for the year.

Environment
The Group's policy is to encourage respect for the environment and Rank adopts an environmentally responsible attitude in the fulfilment of its business objectives. Close attention is paid to energy and water conservation and recycling of waste material where economically practical.

Corporate social responsibility
The Company's risk assessment processes take account of the significance of social environmental and ethical matters to the businesses of the Company. Through these processes and the information thereby provided, the Board can identify and assess if there are any significant risks to the Company's short and long term value arising from social, environmental and ethical matters, as well as opportunities to enhance value.

Share capital
Details of the new Ordinary shares issued pursuant to the exercise of options under Rank's share option schemes are set out in note 23. Note 23 also contains details of the Ordinary shares issued pursuant to the conversion of the Company's convertible preference shares.

A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount representing 5% of the issued Ordinary share capital, without first making a pro-rata offer to all existing Ordinary shareholders.

A resolution will also be proposed at the Annual General Meeting to authorise the Company to purchase up to 15% of its Ordinary

shares at or between the minimum and maximum prices specified in the resolution set out in the notice of meeting. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase could be expected to result in an increase in earnings per share.

Fixed assets
The Directors have considered the total net book value of land and buildings and are of the opinion that it is not significantly different from market value at 31 December 2003.

Payment of suppliers
The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Given the diversity of the Group's businesses and the widely differing credit terms which apply in the various industries and territories in which they operate, the Directors consider that it is not meaningful to disclose an average period of credit taken. The Company has no trade creditors.

Significant shareholdings
At the date of this report the Company has been notified of the following interests over its Ordinary shares in accordance with Sections 198 to 208 of the Companies Act 1985:
Legal & General Group Plc (23,927,238 – 4.02%)
AXA-UAP S.A. (23,737,785 – 3.99%)
Prudential plc (19,247,451 – 3.24%)
Standard Life Group (18,260,110 – 3.07%).

Charitable and political donations
Charitable donations made in the UK during the year amounted to £275,000 (2002 – £151,000). The largest single donation was £217,000 (2002 – £80,000) in favour of the BCA Gaming Industry Charitable Trust. Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International (USA) Inc. donated approximately US$374,000 (2002 – US$762,000), continuing its focus on humanitarian and environmental causes. The Company made no political donations in the year.

Auditors
The auditors, PricewaterhouseCoopers LLP, are willing to continue in office and resolutions that they be re-appointed and that their remuneration be agreed by the Directors will be proposed at the Annual General Meeting.

By order of the Board

Charles Cormick
Secretary, The Rank Group Plc, Registered No. 3140769
Registered Office:
6 Connaught Place, London W2 2EZ

27 February 2004

Remuneration Report

This report sets out the Company's executive remuneration policy and structure, and details the remuneration received by the Directors for the year ended 31 December 2003, in compliance with the Directors' Remuneration Report Regulations 2002.

Remuneration Committee

The Board has overall responsibility for determining the framework of executive remuneration and its cost, and is required to take account of any recommendations made by the Remuneration Committee. The Board has delegated to the Committee (through formal terms of reference which are available on request in writing to the Company Secretary and on the Company's website, www.rank.com) determination of the specific remuneration, benefits and employment packages for the Chairman, executive Directors and other senior executives.

The Remuneration Committee consists solely of independent non-executive Directors. It is chaired by Peter Jarvis and its other members are Oliver Stocken and John Sunderland; the Committee met three times during 2003. Alun Cathcart (Chairman) and Mike Smith (Chief Executive) normally attend meetings of the Remuneration Committee, as do Christine Ray (Group Human Resources Director) and Charles Cormick (Company Secretary), but they are not present at any discussion concerning their own remuneration. Peter Jarvis will retire as Chairman of the Committee after the 2004 Annual General Meeting but will remain a member of the Committee. John Sunderland will replace him as Chairman of the Committee.

Towers Perrin has been appointed by the Committee to advise it, and the Board, on remuneration issues, and New Bridge Street Consultants provide advice on share-based incentive arrangements for executives and the wider employee population; New Bridge Street Consultants have not been formally appointed by the Committee as its adviser. Neither adviser provided any other services to the Company during 2003. Christine Ray assisted the Committee by preparing a report on remuneration and employment conditions within the Group, including current and anticipated levels of pay increases and planned changes in employment conditions; internal support is provided by Charles Cormick.

Remuneration policy

a) Executive Directors

The Committee aims to ensure that the remuneration and incentive arrangements are market-competitive and support the interests of shareholders.

In practice, executive remuneration must reflect the competitive practices of the Company's principal competitors and the other businesses with which it competes for talent. The Committee believes that a significant emphasis on variable remuneration linked to the performance of the Company, together with shareholding guidelines for the executive Directors, is the best way to incentivise and reward executives for the achievement of immediate and longer term strategic objectives of the Company. It is not the Company's intention to pay more than is necessary, and the reward structure and potential size of awards are regularly reviewed by the Committee to ensure that they meet these objectives.

Excluding pension entitlements, the target value for each executive Director's remuneration and the shareholding guidelines are:

	Fixed	Performance-related			
	Base salary %	Annual bonus %	Long term incentives %	Total %	Shareholding guidelines
Mike Smith	42	16	42	100	1.5 x base salary
Ian Dyson	42	16	42	100	1 x base salary

The reward structure for around 30 senior executives below Board level is generally the same although the level of remuneration may differ. The shareholding guidelines for all other Executive Committee members are 0.75 times base salary.

For 2004, the Committee does not foresee any major changes in policy. However, the Company's long term incentive plan will expire in April 2005, and therefore during 2004 the Committee will review the Company's long term incentive arrangements and, as appropriate, consult with shareholders.

b) Non-executive Directors

The Chairman and non-executive Directors receive fees only, and are not eligible to participate in any bonus plan, pension plan, share plan, or long term incentive plan of the Company. The Chairman and the executive Directors determine the fees paid to the non-executive Directors. The Chairman's fee is determined by the Remuneration Committee. The Chairman also receives an expense allowance of £10,000 towards his travel and communication expenses.

Fees paid to non-executive Directors are aligned to reflect the time commitment and responsibility associated with each role. The fees paid to each non-executive Director during 2003 and their fees with effect from 1 January 2004 are disclosed in the Directors' remuneration summary on page 41. It is the Board's intention that in future a proportion of the net fees received by non-executive Directors will be used to purchase Ordinary shares in the Company, and these shares will be retained throughout service as a non-executive Director.

Remuneration structure

a) Base salary and benefits

Base salaries are reviewed annually with effect from 1 January, taking into account individual performance, and are paid at a market competitive level. The Committee receives comparator group information (comprising the Company's principal competitors and other companies of similar size and complexity in the FTSE-350) compiled by independent remuneration consultants, with a view to maintaining base salary at the mid-market level. The Committee is also guided by salary levels of other executives and across the organisation as a whole.

Benefits are provided in line with normal market practice, and include a car allowance, and health, disability and life insurance.

b) Annual cash bonus

The annual cash bonus for executive Directors and senior executives is dependent upon the achievement of operating profit targets (accounting for three-quarters of any bonus) plus a secondary performance measure (accounting for one-quarter of any bonus). The secondary measure is specific to the various Group businesses and relates to quantifiable targets for return on capital employed, cashflow, cost reduction and turnover.

For 2003, the annual cash bonus for achieving these targets for executive Directors was 35% of base salary, with a maximum bonus equal to 70% of base salary. A small element of the bonus related to the Company's performance in the first six months of the year, and was paid in September 2003. Following a review of the bonus arrangements in competitor companies, for 2004 the first six months' bonus has been discontinued and there will be only one bonus payment. The target has been increased to 40%, and the maximum bonus to 80% of base salary for exceeding the targets by 15% or more.

In February 2004 the Committee considered 2003 performance relative to these targets and awarded bonuses as disclosed in the Directors' remuneration summary on page 41. The annual cash bonus received by executive Directors for performance in 2003 was 25.5% of base salary.

c) Long term incentives

The Company operates a Save As You Earn (SAYE) option scheme in which all UK employees can participate. Participants save a fixed amount of up to £250 per month for three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. In line with market practice, the exercise of these options is not subject to any performance condition.

The executive Directors and selected senior executives also participate in an executive share option scheme and a long term incentive plan designed to retain and reward longer term performance of three years or more. During 2003, 179 executives received grants under the executive share option scheme and 35 received conditional awards under the long term incentive plan. It is anticipated that the number of participants in future years will be broadly the same.

Executive Share Option Scheme (ESOS)

The executive Directors and selected senior executives are granted options to purchase shares in the Company at a price fixed at market value at the date of grant. The options will only vest if there is an average increase in normalised earnings per share (EPS) of at least 3% per annum above the growth in the Retail Price Index (RPI) over a three year period. The scheme provides for more challenging performance conditions if the value of shares under option in an annual grant is more than one times base salary. Due to the cyclical nature of a number of the Company's businesses, if the EPS target is not met, the performance period may be extended for one year only. If this target is not met at the end of the fourth year, the options will lapse. The executive Directors were also granted options at the time of their recruitment in 1999, with a performance condition of EPS of at least 2% per annum above the growth in RPI over a three year period.

EPS was determined by the Committee to be the appropriate criterion given its clear linkage with shareholder value, and the required real growth was in line with market practice at the time of shareholder approval of the scheme. The options will have value only if there is an absolute increase in share price.

SAYE and ESOS options are satisfied through the issue of new shares, and the grants of options are carefully planned so as not to exceed 10% of the issued Ordinary share capital in any rolling 10 year period. The Committee has regard to appropriate annual flow-rates to ensure that this limit is not breached.

Long Term Incentive Plan (LTIP)

The executive Directors and selected senior executives are awarded shares in the Company subject to achieving a total shareholder return (TSR) target. To ensure these awards do not vest at a time of overall unsatisfactory financial performance, there must also be an increase in normalised EPS of at least 2% per annum above the growth in RPI over a three year period.

The TSR target measures the Company's growth relative to 19 comparator companies. 100% of the shares vest if the Company achieves upper quartile performance, 30% of the shares vest at median performance, and awards vest on a straight line basis for performance in between. No shares vest if performance is below median. The TSR ranking for awards that vested for the year ended 31 December 2003 and for those not yet vested are:

Performance period start date	TSR ranking at 31 December 2003	Indicative vesting
1 January 2001	3	100% (final vesting)
1 January 2002	2	100%
1 January 2003	12	0%

Accordingly, in 2004 Mike Smith and Ian Dyson will receive all of the shares conditionally awarded to them in 2001 (as shown in the table below).

TSR is measured by reference to the change in the price of Ordinary shares over the performance period and the gross value of dividends assuming they are immediately reinvested in shares during that period. A TSR criterion was selected by the Committee because of its link with shareholder value, and a secondary criterion of EPS growth was selected to ensure that awards would not vest at a time of overall unsatisfactory financial performance.

The comparator group of the companies against which TSR is measured currently comprises BAA, Boots, De Vere, Dixons, EMI, GUS, Hilton, InterContinental Hotels, ITV, Kingfisher, Luminar Leisure, Mothercare, My Travel, Next, Pearson, Scottish & Newcastle, Stanley Leisure, WH Smith and Whitbread. This comparator group of companies was selected by the Committee because of similarities in market sector and/or market capitalisation. In order to reduce the effects of short term volatility in TSR, the averages of the daily closing prices of shares for the previous three months are used.

The executive Directors' interests in share options and other long term incentives are:

	Plan	Date of grant/ award	Exercise price/ market price at award (p)	Market price at exercise/ vesting (p)	Number at 1.01.03	Number granted (exercised)/ awarded (vested) during 2003	Number at 31.12.03	Performance period (maximum)	Earliest exercise/ vesting date	Exercise period end date
Mike Smith	ESOS	1.04.99	226.25	264.00	795,580	(30,000)	765,580	Vested	1.04.02	31.03.09
	ESOS	24.05.02	271.00	–	244,464	–	244,464	1.01.02 to 31.12.05	24.05.05	23.05.12
	ESOS	27.03.03	239.92	–	–	178,184	178,184	1.01.03 to 31.12.06	27.03.06	26.03.13
	LTIP	22.05.00	146.50	235.00	317,406	(317,406)	–	Vested	26.02.03	–
	LTIP	27.03.01	176.30	–	283,687	–	283,687	1.01.01 to 31.12.03	27.02.04	–
	LTIP	12.03.02	275.00	–	96,363	–	96,363	1.01.02 to 31.12.04	25.02.05	–
	LTIP	20.03.03	238.50	–	–	179,245	179,245	1.01.03 to 31.12.05	24.02.06	–
Ian Dyson	ESOS	13.09.99	248.00	–	278,225	–	278,225	Vested	13.09.02	12.09.09
	ESOS	24.05.02	271.00	–	138,376	–	138,376	1.01.02 to 31.12.05	24.05.05	23.05.12
	ESOS	27.03.03	239.92	–	–	100,033	100,033	1.01.03 to 31.12.06	27.03.06	26.03.13
	LTIP	22.05.00	146.50	235.00	163,822	(163,822)	–	Vested	26.02.03	–
	LTIP	27.03.01	176.30	–	153,191	–	153,191	1.01.01 to 31.12.03	27.02.04	–
	LTIP	12.03.02	275.00	–	54,545	–	54,545	1.01.02 to 31.12.04	25.02.05	–
	LTIP	20.03.03	238.50	–	–	100,628	100,628	1.01.03 to 31.12.05	24.02.06	–

The market value of one Ordinary share was 279.25p at 31 December 2003. The highest market value during 2003 was 307.00p and the lowest was 212.50p.

d) Pension

The executive Directors are members of the Rank Pension Plan, which is a defined benefit plan, providing benefits based on number of years' service and base salary (restricted by the earnings cap imposed by the Finance Act 1989). The accrual rate does not exceed 1/30th for each year of service.

In addition, the Company pays into a funded unapproved retirement benefit scheme (FURBS), which is a defined contribution scheme, on behalf of Mike Smith. The Company also pays a salary supplement in lieu of additional pension contributions to Ian Dyson. These amounts are disclosed in the Directors' remuneration summary on page 41.

Pension entitlements and corresponding transfer values of the executive Directors for the Rank Pension Plan during the year were:

	Age at 31.12.03	Directors' contributions during 2003 £000	Total accrued pension at 31.12.03 £000	Increase in accrued pension during 2003 £000	Increase in accrued pension (net of inflation) during 2003 £000	Transfer value of net increase in accrued pension £000	Transfer value of accrued pension at 1.01.03 £000	Transfer value of accrued pension at 31.12.03 £000	Increase in transfer value (net of Directors' contribution) £000
Mike Smith	56	7	8	2	2	18	87	122	28
Ian Dyson	41	7	14	3	3	17	69	104	28

Accrued pension is the amount which would be paid annually on retirement based on service to the end of the year. Transfer values have been calculated in accordance with guidance note GN11 published by the Institute of Actuaries and the Faculty of Actuaries. The increase in transfer value includes the effect of fluctuations due to factors beyond the control of the Company and the Directors, such as stock market movements. The transfer values of the accrued entitlement represent the value of assets the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Directors' pension benefits. They do not represent sums payable.

During 2004, the Company will review the pension arrangements of all UK-based employees, including the executive Directors, in preparation for the UK Government's proposed changes to the taxation of pensions from April 2005. It is the Company's intention that any changes made will not increase the overall cost to the Company.

Service contracts and external directorships

The Company's policy is that the Chairman and executive Directors have service contracts with notice periods not exceeding one year. However, the Company recognises that in the case of any future appointments from outside the Company, a longer initial notice period may be necessary, reducing to one year or less after an initial period. There are no predetermined compensation provisions for early termination, and any compensation payable will be determined on an individual basis taking into account length of service, the circumstances surrounding termination, and an individual's duty to mitigate losses.

Non-executive Directors do not have service contracts and in future will be appointed for an initial period of three years, subject to review annually thereafter. The existing non-executive Directors do not have service contracts but serve the Company under letters of appointment. These appointments may be terminated without liability for compensation.

	Date of service contract	Unexpired term	Notice period
Alun Cathcart	10.04.01	12 months	12 months
Mike Smith	25.02.99	12 months	12 months
Ian Dyson	17.08.99	12 months	12 months

The Company recognises that its Directors may be invited to become non-executive Directors of other companies, or become involved in charitable or public service organisations. These appointments can broaden the knowledge and experience of the Directors to the benefit of the Company. Providing there is no conflict of interest and the commitment is not excessive, the executive Directors are permitted to accept one external appointment and to retain any fees received. During the year, Mike Smith served as non-executive Chairman of communisis plc and retained fees of £75,000, and Ian Dyson served as a non-executive Director of Misys Plc and retained fees of £7,500.

Directors' interests in Ordinary shares

The total interests of executive and non-executive Directors in the issued share capital of the Company are:

	Ordinary shares 31 December 2003	Ordinary shares 1 January 2003
Chairman:		
Alun Cathcart	**100,000**	75,000
Executive Directors:		
Mike Smith	**300,000**	120,000
Ian Dyson	**118,293**	20,000
Non-executive Directors:		
Peter Jarvis	**25,525**	25,525
Oliver Stocken	**40,090**	38,188
John Sunderland	**1,058**	1,058
Total	**584,966**	279,771

There were no changes in Directors' interests between 31 December 2003 and the date of this report.

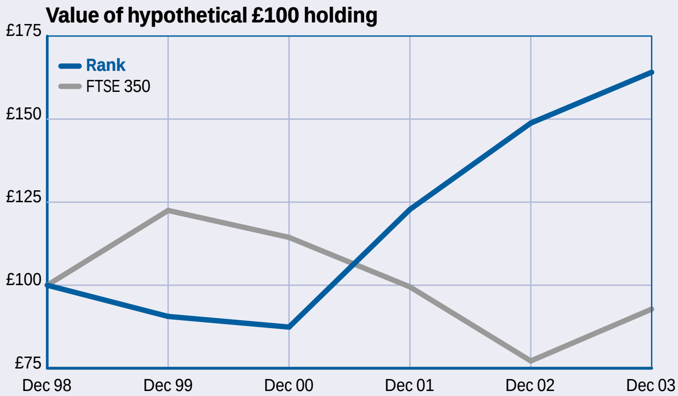
Pursuant to the Companies Act 1985, each executive Director is also deemed to be interested in the Ordinary shares of the Company held by the Rank Group Employee Benefit Trust. At 1 January 2003, the interest was in 3,897,157 Ordinary shares, and at 31 December 2003, and at the date of this report, the interest is in 2,752,076 Ordinary shares.

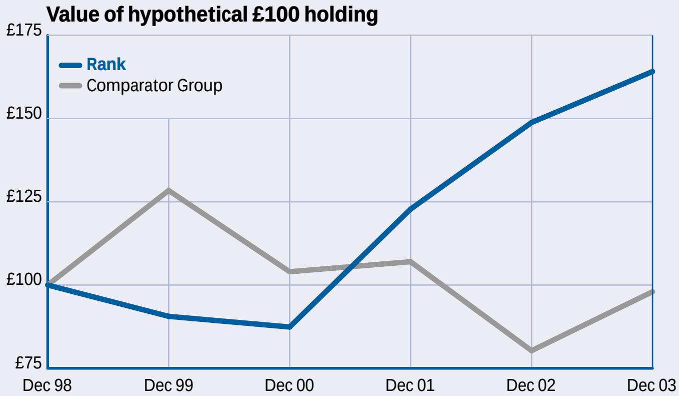
Directors' remuneration summary
The cash emoluments received by the Directors for 2003 and base salary/fees from 1 January 2004 are:

	Base salary/ base fees £000	Committee Chairman's fees £000	Benefits £000	Expense allowances £000	Annual bonus £000	FURBS/ salary supplement £000	Total emoluments (excluding pensions) **Total 2003 £000**	Total 2002 £000	Base salary/ fees from 1.01.04 £000
Chairman:									
Alun Cathcart	167	–	–	10	–	–	**177**	160	175
Executive Directors:									
Mike Smith	570	–	31	–	145	257	**1,003**	1,058	600
Ian Dyson	320	–	22	–	82	64	**488**	530	340
Non-executive Directors:									
Peter Jarvis	33	7	–	–	–	–	**40**	33	34
Oliver Stocken	33	7	–	–	–	–	**40**	33	34
John Sunderland	33	–	–	–	–	–	**33**	29	36
Total	1,156	14	53	10	227	321	**1,781**	1,843	1,219

There were no payments in respect of termination or compensation for loss of office paid to or receivable by Directors during the year.

Company performance
Shown below is the Company's total shareholder return (TSR) performance compared with the FTSE 350 index (excluding investment companies) for the five years to 31 December 2003. The Committee has selected this index as the Company has been at the upper end of the FTSE 250 index and just outside the FTSE 100 index during this period. The median of the comparator group of companies selected for the LTIP for the five years to 31 December 2003 is also shown.





PricewaterhouseCoopers LLP
In their audit opinion on page 45 PricewaterhouseCoopers LLP refer to their audit of their disclosures required by Part 3 of Schedule 7A to the Companies Act 1985. These comprise the following disclosures in this Remuneration Report:
• The table above showing cash emoluments received by the Directors in 2003
• The disclosures under the headings "Executive Share Option Scheme (ESOS)" and "Long Term Incentive Plan (LTIP)" on pages 38 and 39
• The disclosures under the heading "Pension" on pages 39 and 40.

On behalf of the Board

Peter Jarvis
Chairman of the
Remuneration Committee

Corporate Governance

The policy of the Board in 2003 has been to manage the affairs of the Company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the Financial Services Authority ("the 1998 Code"). In July 2003 a new code on Corporate Governance was issued ("the 2003 Code") and the Company has already taken steps to comply with the 2003 Code which applies to reporting years beginning on or after 1 November 2003. This report, therefore, addresses not only how the Company has applied the principles of the 1998 Code, but also how it intends to apply both the main and supporting principles of the 2003 Code. The Company's compliance statement is however limited to the 1998 Code.

Application of principles of good governance

Board

The Directors believe that it is essential that the Company should be both led and controlled by an effective Board. The Board has adopted a formal statement of its powers, duties and responsibilities and recognises that its main functions are as follows:

- agreeing objectives, policies and strategies, and monitoring the performance of the executive management;

- keeping under review the general progress and long term development of the Group in the light of the political, economic and social environments in which it operates;

- controlling and monitoring the financial state and performance of the Group (including investment and financing plans), determining the desired financial ratios, approving the objectives of the Group Five Year Business Plan;

- deciding on major changes in organisation and the shape of the Group, including entry into new fields of operation and departure from those which are no longer appropriate;

- approving major expenditure and transactions with other companies including, for example, acquisitions, disposals, joint ventures and significant supply arrangements;

- ensuring that the Group pursues sound and proper policies in relation to:

(a) safety, health and environmental matters; and
(b) corporate governance;

- delegating clear responsibility and authority to the Chairman, Committees of the Board, the Chief Executive, Directors or groups of Directors, Officers and others; and

- giving approval or support as appropriate to the most senior appointments in the Group and ensuring that adequate career development, succession and remuneration arrangements exist for them.

There is a formal schedule of matters reserved for the Board's decision.

The Board receives a steady flow of information to enable it to discharge its duties, including a monthly report detailing current and forecast trading results, treasury positions and a share register analysis. Board papers are generally distributed not less than five days in advance of the relevant meeting to allow the Directors to fully prepare for meetings, and minutes of Committee meetings are circulated to all Directors. Training programmes, including induction into the operations of the Company, are developed for newly appointed Directors. The Board keeps informed of developments within the Company's businesses through regular presentations by divisional management. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed, and to independent professional advice, if required, at the Company's expense.

The Board recognises the need to evaluate its performance and processes are being developed to assist in such evaluation, the emphasis of which will be on the performance of the Board as a whole under the leadership of the Chairman. All Directors are required to submit themselves for election by shareholders at the first Annual General Meeting after their appointment and for re-election thereafter at intervals of no more than three years.

Board meetings

Regular Board meetings are held (not less than eight meetings in a year). At least one meeting is devoted to strategy, and is held offsite from the Company's London office. The Board also aims to hold at least one meeting a year outside the UK to enable the Board to meet overseas management. Ad-hoc meetings are also convened, to attend to any matters requiring Board consideration in between regular meetings. In future, the Chairman will hold at least one meeting a year with the non-executive Directors without the executive Directors being present and, led by the recently appointed senior independent Director, the non-executive Directors will meet without the Chairman present at least once a year to appraise his performance.

Directors

There is a clear division of responsibilities at the head of the Company, with the Chairman responsible for the effective operation of the Board, and the Chief Executive responsible for the running of the Company's businesses. The Board has approved formal statements describing the role and remit of both the Chairman and Chief Executive, which emphasise this division of responsibilities.

The Board includes a balance of executive and independent non-executive Directors, whose biographical details are given on page 23; John Sunderland was nominated as the senior independent Director in October 2003. The Directors have wide ranging business experience. No individual, or group of individuals, dominates the Board's decision making.

The Company has arranged insurance cover in respect of legal action against its Directors.

Nominations Committee

In 2003 the Board reviewed its practices regarding the appointment of new Directors to the Board. A Nominations Committee has existed for a number of years but its composition was determined on an ad-hoc basis, depending upon the nature of the appointment under consideration. In September 2003 however, the Board adopted new terms of reference for the Nominations Committee and agreed it should comprise the Chairman, the Chief Executive and two independent non-executive Directors, currently Peter Jarvis and John Sunderland. Charles Cormick serves as Secretary to the Committee. The Nominations Committee's terms of reference are available on request to the Company Secretary and are included on the Company's website, www.rank.com.

The Board also approved more formal processes for the identification and appointment of future non-executive Directors. Since September 2003, the Nominations Committee has agreed specifications for new non-executive Directors and has

engaged an external search consultant to assist in the process of identifying suitable candidates for consideration by the Committee.

In addition to the Nominations Committee, the Board has established the following Committees, to facilitate its operations:

The Audit Committee
In 2003, Rank's Audit Committee comprised the Chairman and the three independent non-executive Directors. The Chairman resigned from the Committee in December 2003 and in future the Committee will be comprised solely of independent non-executive Directors. Details of the Committee's current membership are as follows:

	Date first appointed	Date of appointment as Chairman
Oliver Stocken	October 1998	May 2000
Peter Jarvis	May 2000	N/A
John Sunderland	February 1998	N/A

The Board is satisfied that all members of the Committee have recent and relevant financial experience.

Normally the Chief Executive, Finance Director and Director of Risk Management attend Committee meetings as will, in future, the Chairman.

The Audit Committee's terms of reference were revised during 2003 and are available on request to the Company Secretary, and are included on the Company's website, www.rank.com.

In summary, the Committee assists the Board in reviewing the effectiveness of internal control systems. The Committee also reviews financial statements to be published externally before their submission to the Board, to ensure they present a fair assessment of the Group's position and prospects. It also authorises any change in accounting policies. The Committee meets at least annually with the Auditors without executive management being present.

The Committee also keeps under review the independence and objectivity of the external Auditors and their effectiveness. In particular, the Committee oversees the nature and amount of non-audit work undertaken by PricewaterhouseCoopers LLP each year to ensure that external Auditor independence is safeguarded.

In 2003 the Committee adopted a new policy regarding auditor independence and the provision of non-audit services by the external Auditors. All non-audit services above £50,000 to be performed by the external Auditors are required to be approved by the Audit Committee and the Group's policy remains that, where appropriate, non-audit work is put out to competitive tender. Details of the year's fees are given in note 2 on page 54.

The Finance Committee
The Finance Committee is an executive Committee to which certain specific authorities have been delegated by the Board, principally in respect to capital expenditure authorisation and financing of the Group.

The Remuneration Committee
The Remuneration Committee meets not less than twice a year and is responsible for determining the remuneration packages of the Chairman, the executive Directors, and other members of the Executive Committee. Details of the Remuneration Committee's deliberations during 2003 are contained in the Remuneration Report on pages 37 to 41.

The composition of each of these Committees is given on page 23.

Attendance
Details of attendances at the principal Board and Committee meetings in 2003 are as follows:

	Board (Total 8)	Audit (Total 4)	Remuneration (Total 3)	Finance (Total 8)
Alun Cathcart	8	3	N/A	8
Ian Dyson	8	N/A	N/A	8
Peter Jarvis	7	4	3	N/A
Mike Smith	8	N/A	N/A	8
Oliver Stocken	8	4	3	N/A
John Sunderland	8	3	2	N/A

In the very few instances when a Director has not been able to attend Board or Committee meetings, his comments on the papers to be considered at that meeting have been relayed in advance to the relevant Chairman.

The Executive Committee
The Executive Committee is not a committee of the Board. Its role is to assist the Chief Executive in fulfilling his responsibilities for directing and promoting the profitable operation and development of the Group, consistent with the primary objective of creating long term shareholder value. It currently consists of the Chief Executive, Finance Director, Company Secretary, Group Human Resources Director, and Managing Directors of divisions.

Remuneration
The Company's remuneration policy and details of Directors' remuneration are contained in the Remuneration Report on pages 37 to 41.

Accountability and audit
The process by which the Board applies the principles of accountability and audit are set out overleaf, including a statement of the Directors' responsibilities in relation to the Accounts.

Relations with shareholders
The Company maintains an active dialogue with its institutional shareholders and city analysts through a planned programme of investor relations, and regular meetings are held with principal shareholders. The programme includes formal presentations of full year and interim results. All shareholders are welcome to attend the Annual General Meeting and private investors are encouraged to take advantage of the opportunity given to ask questions. A summary presentation of the Company's results and development plans is given by the Chief Executive at the Annual General Meeting prior to the commencement of the formal business of that meeting.

Compliance with Code provisions
The Company has, throughout the year, complied with the provisions of the 1998 Code save that in connection with code provision A.2.1, no Director was nominated as the senior independent Director until October 2003. Until the publication of the 2003 Code, the Board did not consider it appropriate to identify a senior independent Director given that the Chairman of the Company and the Chairmen of the Audit and Remuneration Committees were already identified.

Risk management and internal control
The Board maintained the procedures necessary to comply with the requirements of the 1998 Code relating to internal control

and in the September 1999 guidance "Internal Control: Guidance for Directors on the Combined Code" (Turnbull Report). In relation to Code provision D.2.1, the Board reports below on the procedures that have been applied in reviewing the effectiveness of the system of internal control.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The process has been in place throughout the year and up to the date of approval of the Annual Report and Accounts. It is regularly reviewed by the Board and accords with the guidance set out in the Turnbull Report.

The Directors acknowledge that they are responsible for the Group's system of internal control, for setting policy on internal control and for reviewing the effectiveness of internal control. The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times and the Board actively promotes a culture of quality and integrity.

A Group risk management policy has been produced and regular meetings of the Group Risk Management Committee take place, chaired by the Finance Director.

The Group Risk Management Committee directs and reviews risk management activities within the Group, so that the significant risks facing the Group can be reported to the Audit Committee and the Board. The Group-wide risk assessment process includes a review that covers all controls, including financial, operational and compliance controls, and risk management. The report to the Audit Committee also provides information on the management and control of significant risks and monitors compliance with the Group risk management policy.

The Group has an internal audit function that reports to the Company Secretary. Detailed control procedures exist throughout the operations of the Group and compliance is monitored by management, internal auditors and, to the extent they consider necessary to support their audit report, external Auditors. Additionally, Gaming division has a compliance function that monitors day-to-day adherence to control procedures.

The Board recognises its obligations as a foreign registrant under the US Securities and Exchange Commission, including the requirement to comply where appropriate with the Sarbanes – Oxley Act of 2002. A Disclosures Committee was established in 2003 to evaluate the effectiveness of the Group and divisional disclosure controls and procedures. Additionally, work has commenced to document and test the internal controls structure and procedures to comply with Section 404 of the Sarbanes – Oxley Act.

The Audit Committee has reviewed the effectiveness of the system of internal control during the year ended 31 December 2003. This has included consideration of the Group-wide risk assessment and the results of self-certification of internal control exercises undertaken throughout the Group. The Audit Committee has also considered reports from internal and external Auditors.

The Audit Committee has reported the results of its work to the Board. The Board has considered these reports when undertaking its review of the effectiveness of the Group's system of internal control.

Going concern

After reviewing the Group's budget for 2004 and its medium term plans, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the accounts.

Directors' Responsibilities in Relation to the Accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates, and to state that all accounting standards which they consider to be applicable have been followed, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Report of the Auditors to the members of The Rank Group Plc

We have audited the accounts which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of movement in shareholders' funds and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Directors' Report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Chief Executive's review, the Operating and Financial Review, the Corporate Governance statement and other information included in the contents list.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion
In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and the profit and cash flows of the Group for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

27 February 2004

Group Profit and Loss Account for the year ended 31 December 2003

		2003			2002		
	Note	**Before exceptional items £m**	**Exceptional items £m**	**Total £m**	Before exceptional items (as restated) £m	Exceptional items £m	Total (as restated) £m
Turnover							
Continuing operations	2	**1,574.7**	**–**	**1,574.7**	1,508.5	–	1,508.5
Acquisitions	2	**351.2**	**–**	**351.2**	–	–	–
	1, 2	**1,925.9**	**–**	**1,925.9**	1,508.5	–	1,508.5
Operating profit before goodwill amortisation		**223.0**	**(51.1)**	**171.9**	220.6	(6.2)	214.4
Goodwill amortisation	2	**(6.4)**	**–**	**(6.4)**	(1.0)	–	(1.0)
Operating profit							
Continuing operations	2	**211.9**	**(51.1)**	**160.8**	219.6	(6.2)	213.4
Acquisitions	2	**4.7**	**–**	**4.7**	–	–	–
Group operating profit	1, 2	**216.6**	**(51.1)**	**165.5**	219.6	(6.2)	213.4
Share of operating profit in joint ventures and associates							
Joint ventures	12	**1.1**	**–**	**1.1**	5.3	–	5.3
Associated undertakings	13	**(0.3)**	**–**	**(0.3)**	(0.5)	–	(0.5)
Total operating profit		**217.4**	**(51.1)**	**166.3**	224.4	(6.2)	218.2
Non-operating items							
Net loss on disposal of continuing operations	3	**–**	**–**	**–**	–	(0.8)	(0.8)
Net profit on disposal of previously discontinued operations	3	**–**	**4.6**	**4.6**	–	–	–
Net loss on disposal of fixed assets in discontinued joint venture	3	**–**	**–**	**–**	–	(1.0)	(1.0)
Profit on disposal of interest in discontinued joint venture	3	**–**	**–**	**–**	–	7.7	7.7
Profit (loss) before interest		**217.4**	**(46.5)**	**170.9**	224.4	(0.3)	224.1
Net interest payable and similar charges							
Group	4	**(29.7)**	**(11.5)**	**(41.2)**	(22.6)	–	(22.6)
Joint ventures	12	**(0.4)**	**–**	**(0.4)**	(1.5)	(2.0)	(3.5)
		(30.1)	**(11.5)**	**(41.6)**	(24.1)	(2.0)	(26.1)
Profit (loss) on ordinary activities before tax		**187.3**	**(58.0)**	**129.3**	200.3	(2.3)	198.0
Tax on profit (loss) on ordinary activities	5	**(54.2)**	**26.1**	**(28.1)**	(59.8)	0.6	(59.2)
Profit (loss) on ordinary activities after tax		**133.1**	**(31.9)**	**101.2**	140.5	(1.7)	138.8
Equity minority interests	24	**(2.3)**	**2.8**	**0.5**	(2.1)	–	(2.1)
Profit (loss) for the financial year		**130.8**	**(29.1)**	**101.7**	138.4	(1.7)	136.7
Dividends and other appropriations							
Preference – non-equity	7	**(17.1)**	**–**	**(17.1)**	(21.0)	–	(21.0)
Ordinary – equity	7	**(82.8)**	**–**	**(82.8)**	(78.2)	–	(78.2)
Transfer to (from) reserves	23	**30.9**	**(29.1)**	**1.8**	39.2	(1.7)	37.5
Basic earnings (loss) per Ordinary share	8	**19.2p**	**(4.9)p**	**14.3p**	19.9p	(0.3)p	19.6p
Diluted earnings (loss) per Ordinary share	8	**18.5p**	**(4.7)p**	**13.8p**	19.8p	(0.3)p	19.5p
Basic earnings (loss) per Ordinary share before goodwill amortisation	8	**20.1p**	**(4.9)p**	**15.2p**	20.1p	(0.3)p	19.8p

There is no difference between the result as disclosed in the profit and loss account and that on an unmodified historical cost basis.

Balance Sheets at 31 December 2003

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	9	**123.9**	52.3	**–**	–
Tangible assets	10	**803.2**	780.7	**–**	–
Investments					
Subsidiary undertakings	11	**–**	–	**1,762.7**	1,697.0
Joint ventures					
Share of gross assets		**17.7**	12.9	**–**	–
Share of gross liabilities		**(10.9)**	(7.5)	**–**	–
	12	**6.8**	5.4	**–**	–
Associated undertakings	13	**3.0**	4.0	**–**	–
Other	14	**53.8**	58.0	**7.0**	9.8
		63.6	67.4	**1,769.7**	1,706.8
		990.7	900.4	**1,769.7**	1,706.8
Current assets					
Stocks	15	**70.2**	74.4	**–**	–
Debtors (amounts falling due within one year)	16	**445.6**	411.8	**13.4**	–
Debtors (amounts falling due after more than one year)	16	**330.8**	319.7	**–**	–
Investments	17	**4.2**	24.0	**–**	–
Cash and deposits	17	**167.9**	83.2	**0.1**	–
		1,018.7	913.1	**13.5**	–
Creditors (amounts falling due within one year)					
Loan capital and borrowings (including convertible debt)	18	**(292.1)**	(38.8)	**(147.1)**	–
Other	20	**(441.7)**	(403.5)	**(788.2)**	(535.1)
		(733.8)	(442.3)	**(935.3)**	(535.1)
Net current assets (liabilities)		**284.9**	470.8	**(921.8)**	(535.1)
Total assets less current liabilities		**1,275.6**	1,371.2	**847.9**	1,171.7
Creditors (amounts falling due after more than one year)					
Loan capital and borrowings	18	**(580.5)**	(467.5)	**–**	–
Other	20	**(105.7)**	(83.5)	**–**	–
		(686.2)	(551.0)	**–**	–
Provisions for liabilities and charges	21	**(46.3)**	(51.5)	**(2.2)**	(2.2)
		543.1	768.7	**845.7**	1,169.5
Capital and reserves					
Called up share capital	23	**59.6**	104.8	**59.6**	104.8
Share premium account	23	**17.5**	13.6	**17.5**	13.6
Capital redemption reserve	23	**24.8**	24.8	**24.8**	24.8
Other reserves	23	**425.1**	605.4	**743.8**	1,026.3
Shareholders' funds		**527.0**	748.6	**845.7**	1,169.5
Equity interests		**527.0**	522.0	**845.7**	942.9
Non-equity interests		**–**	226.6	**–**	226.6
Equity minority interests	24	**16.1**	20.1	**–**	–
		543.1	768.7	**845.7**	1,169.5

These accounts were approved by the Board on 27 February 2004 and signed on its behalf by:
Alun Cathcart, Chairman
Ian Dyson, Finance Director

Group Cash Flow Statement for the year ended 31 December 2003

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	25	**291.9**	107.3
Returns on investment and servicing of finance			
Interest received		**18.4**	8.2
Interest paid		**(57.0)**	(31.3)
Dividends paid to convertible preference shareholders		**(24.9)**	(18.8)
Dividends paid to minority shareholders in subsidiary undertakings		**(2.1)**	(2.1)
		(65.6)	(44.0)
Taxation paid (net)		**(27.8)**	(27.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(111.4)**	(117.9)
Purchase of investments		**(6.5)**	(13.7)
Sale of fixed assets and assets held for disposal		**9.8**	34.8
		(108.1)	(96.8)
Acquisitions and disposals			
Purchase of subsidiaries	26	**(53.7)**	(38.7)
Cash acquired with subsidiaries	26	**1.6**	3.4
Sale of businesses and investments		**–**	5.1
Investment in joint ventures and associated undertakings		**–**	(8.5)
		(52.1)	(38.7)
Ordinary dividends paid		**(79.4)**	(75.8)
Cash outflow before use of liquid resources and financing		**(41.1)**	(175.1)
Management of liquid resources	28	**19.6**	(18.8)
Financing			
(Redemption) purchase of share capital		**(211.0)**	5.2
Changes in debt and lease financing			
Debt due within one year:			
new sterling borrowings		**82.1**	–
(repayment) drawdown of other short term loans and borrowings		**(24.5)**	25.8
Debt due after more than one year:			
repayment of sterling borrowings		**(125.0)**	–
new US dollar private placements		**304.3**	–
net drawdown on syndicated facilities		**200.0**	159.9
repayment of syndicated facilities		**(137.0)**	–
net movements on other long term facilities		**7.2**	(25.5)
Capital element of finance lease rental payments		**(3.8)**	(0.5)
Net cash inflow from financing	27	**92.3**	164.9
Increase (decrease) in cash	27, 28	**70.8**	(29.0)

Group Recognised Gains and Losses for the year ended 31 December 2003

	Note	**2003 £m**	2002 £m
Profit for the financial year		**101.7**	136.7
Currency translation differences on foreign currency net investments		**(10.2)**	(26.5)
Tax on exchange adjustments offset in reserves		**8.8**	(0.5)
Total recognised gains and losses for the year		**100.3**	109.7

Movements in Group Shareholders' Funds for the year ended 31 December 2003

	Note	**2003 £m**	2002 £m
Profit for the financial year		**101.7**	136.7
Dividends payable excluding provision for redemption premium		**(99.9)**	(97.0)
Retained profit for the year		**1.8**	39.7
Other recognised gains and losses (net)		**(1.4)**	(27.0)
New share capital subscribed		**4.1**	5.3
Redemption of convertible preference shares		**(226.1)**	–
Goodwill realised on disposal of subsidiaries		**–**	2.6
Amounts deducted in respect of shares issued to the QUEST		**–**	(0.7)
Net movement in shareholders' funds		**(221.6)**	19.9
Opening shareholders' funds		**748.6**	728.7
Closing shareholders' funds		**527.0**	748.6

Accounting Policies

1 Basis of preparation

The accounts are prepared under the historical cost convention, and comply with applicable accounting standards on a basis consistent with the previous year except for the changes detailed below. The Group's profit and loss account and balance sheet include the accounts of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its joint ventures and associated undertakings. The profits or losses of subsidiary undertakings acquired or sold during the period are included as from or up to the dates on which control passed. All business combinations are accounted for using the acquisition accounting method.

Changes in accounting policy

The Group has amended its interactive gaming revenue recognition policy to show gross turnover (stakes) rather than gross win, reflecting current industry standards. The changes increase turnover by £43.9m for the year ended 31 December 2002. There is no impact on operating profit.

2 Foreign currency

Revenues, costs and cash flows of overseas undertakings are included in the Group profit and loss account at average rates of exchange. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date except where a forward exchange contract has been arranged when the contracted rate is used. Exchange differences on the retranslation of opening net assets and results for the period of foreign subsidiary undertakings are dealt with through reserves net of differences on related foreign currency borrowings and are reported in the statement of recognised gains and losses. Other gains and losses arising from foreign currency transactions, including trading, are included in the consolidated profit and loss account.

The principal exchange rates affecting the Group were:

	2003		2002	
	Year end	Average	Year end	Average
US dollar	**1.79**	**1.63**	1.61	1.51
Canadian dollar	**2.31**	**2.32**	2.54	2.40
Euro	**1.42**	**1.45**	1.53	1.59

3 Income recognition

Turnover consists of sales of goods and services and is generally recognised as goods are shipped or services are rendered. Turnover for casinos includes the gaming win before deduction of gaming duty. Turnover for sports betting represents settled stakes. The Group has considered the impact of FRS 5 "Reporting the Substance of Transactions – Application Note G" during the year and no significant changes are required to the income recognition policy.

4 Contract advances

The Deluxe businesses enter into contracts with major customers that span several years. As part of these contracts, Deluxe provides advance cash payments to the customers. Both Deluxe Media and Deluxe Film capitalise the total commitment payable under each contract within debtors at the date of the agreement and record a corresponding liability on the balance sheet for any outstanding unpaid amounts. Within Deluxe Media, capitalised contract costs are amortised through the profit and loss account on the basis of units produced. In the prior year capitalised contract costs were amortised on a straight line basis over the life of the contract. This policy was changed to bring both components of Deluxe onto the same basis. This change had no significant impact on the results for the year. Within Deluxe Film, contract advances are amortised on the basis of estimated total footage over the life of the contract, unless the terms of the contract indicate an alternative treatment would be more appropriate.

5 Goodwill

Goodwill arising on acquisitions made before 31 December 1997 has been written off directly to reserves. Goodwill arising on acquisitions subsequent to 31 December 1997 has been capitalised and is being amortised on a straight line basis over its useful economic life of 20 years or less.

6 Stocks

Stocks include work in progress and are valued at the lower of cost (including an appropriate proportion of overhead) and net realisable value.

7 Tangible fixed assets

Freehold properties are depreciated on a straight line basis over 50 years or their useful life, if less. Leased properties are depreciated over the lesser of 50 years, their useful life or the term of the lease. No depreciation is provided on freehold land. Expenditure on major refurbishment of properties is amortised over periods of between 3 and 15 years. Other fixed assets are depreciated mainly at rates between 5% and 33% per annum on a straight line basis.

Pre-opening costs are expensed as incurred.

Casino properties are depreciated over the useful economic life of the physical properties to their residual values. Both the initial carrying amount and residual value take into account the trading potential of the property with the benefit of the casino licences.

8 Leased assets
Assets acquired under finance leases are included in tangible fixed assets. Depreciation is provided at rates designed to write-off the cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Operating lease payments are charged to the profit and loss account as incurred.

9 Investments
Investments are stated at cost less any provision for impairment.

10 Pensions
The pension costs as calculated under SSAP 24 relating to the UK defined benefit scheme are assessed in accordance with the advice of a qualified actuary using the attained age method. Actuarial surpluses and deficiencies are amortised on a straight line basis over the expected average remaining service lives of the employees. The pension costs relating to the UK defined contribution scheme represent the contributions payable by the Group. Overseas schemes are accounted for in accordance with local conditions and practice such that the costs are charged against profits on a systematic basis over the service lives of the employees. The disclosures required under the transitional arrangements for FRS 17 are presented in note 30(b).

11 Taxation
Current tax is applied to taxable profits at the rates ruling in the relevant country.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse.

12 Financial instruments
Derivative instruments that may be used by the Group are forward interest rate swaps and caps, cross currency swaps, forward starting swaps, forward rate agreements, interest rate swaps, interest rate swap options, forward foreign exchange and commodity contracts and currency options.

Derivative instruments that are currently used by the Group are interest rate swaps, forward foreign exchange and commodity contracts and short term currency swaps. These instruments are used to manage interest rate and foreign exchange and commodity price risk.

The forward foreign exchange contracts are used to hedge future transaction flows. The resulting gains and losses are recognised as they arise and offset against gains and losses in the related underlying exposure.

The interest rate differentials from interest rate swaps used to manage the amounts and periods for which interest rates on underlying debt is fixed are recorded through an adjustment of net interest payable.

Commodity forwards are used to hedge the future transaction flows arising from the sale of precious metals produced as a by-product of film processing.

The underlying principal amounts of short term currency swaps are revalued at the exchange rates as at the balance sheet date and included in current asset investments or creditors to the extent that they are not related to underlying debt. The interest rate element of these contracts is recognised as part of net interest payable over the term of the agreement.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are determinable monetary amounts, and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

The Group capitalises the cost of issuing debt and amortises the cost over the length of the debt.

Notes to the Accounts

1 Segmental information

	Turnover		Profit (loss) before exceptional items		Profit (loss) after exceptional items		Capital employed (b)	
	2003 £m	2002 (as restated) £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Analysis by division (a)								
Gaming	**865.7**	518.4	**114.7**	104.8	**108.7**	104.8	**668.6**	589.3
Hard Rock	**234.0**	242.7	**23.1**	27.6	**23.1**	27.6	**669.6**	728.7
Deluxe	**788.5**	704.2	**89.9**	89.0	**54.1**	82.8	**711.5**	717.1
US Holidays	**37.7**	43.2	**6.0**	8.1	**6.0**	8.1	**57.3**	65.5
Central costs and other	**–**	–	**(17.1)**	(9.9)	**(26.4)**	(9.9)	**–**	–
Continuing operations including acquisitions	**1,925.9**	1,508.5	**216.6**	219.6	**165.5**	213.4	**2,107.0**	2,100.6
Share of investments (c)			**0.4**	3.3	**0.4**	1.3	**63.6**	67.4
Total capital employed							**2,170.6**	2,168.0
Non-operating items (net)					**4.6**	5.9		
Group interest payable and other similar charges			**(29.7)**	(22.6)	**(41.2)**	(22.6)		
Profit on ordinary activities before tax			**187.3**	200.3	**129.3**	198.0		

(a) Inter-segmental turnover is not material.
(b) Capital employed comprises net operating assets plus purchased goodwill, including goodwill previously written off to reserves (note 23).
(c) Share of investments' profit is defined as share of profit before tax. Share of investments' capital employed is the carrying value in the Group's balance sheet plus purchased goodwill. Investments comprise joint ventures, associates and other investments.

	Depreciation and goodwill amortisation		Investment expenditure		Net cash flow before financing		Net assets	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Analysis by division								
Gaming	**44.0**	40.2	**64.3**	60.0	**74.1**	80.1	**457.0**	431.7
Hard Rock	**17.3**	16.4	**12.4**	26.2	**36.0**	17.9	**146.2**	170.8
Deluxe	**32.6**	23.1	**33.7**	30.3	**41.0**	(78.9)	**440.6**	453.2
US Holidays	**0.8**	0.8	**1.0**	1.3	**7.8**	13.0	**34.5**	39.9
Central costs and other	**0.2**	0.1	**–**	0.1	**(20.7)**	(33.1)	**–**	–
Continuing operations including acquisitions	**94.9**	80.6	**111.4**	117.9	**138.2**	(1.0)	**1,078.3**	1,095.6
Investments			**6.5**	22.2	**(6.5)**	(22.2)	**63.6**	67.4
			117.9	140.1	**131.7**	(23.2)	**1,141.9**	1,163.0
Interest paid (net)					**(38.6)**	(23.1)		
Tax and dividends					**(134.2)**	(123.8)	**14.9**	(1.6)
Other non-operating assets (net)							**(37.1)**	(45.9)
Acquired debt and other non-cash items			**–**	–	**–**	(5.0)		
Goodwill							**123.9**	52.3
Net debt							**(700.5)**	(399.1)
			117.9	140.1	**(41.1)**	(175.1)	**543.1**	768.7

1 Segmental information continued

	Turnover by origin		Operating profit by origin: Before exceptional items		Operating profit by origin: After exceptional items		Net operating assets (a)	
	2003 £m	2002 (as restated) £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Geographical analysis								
UK	**1,064.3**	630.3	**98.1**	100.5	**88.3**	100.9	**570.8**	527.8
North America	**665.6**	707.6	**87.7**	98.2	**47.1**	91.2	**399.7**	456.5
Rest of the World	**196.0**	170.6	**30.8**	20.9	**30.1**	21.3	**107.8**	111.3
Continuing operations	**1,925.9**	1,508.5	**216.6**	219.6	**165.5**	213.4	**1,078.3**	1,095.6

Turnover by destination is not materially different from turnover by origin.
(a) Net assets includes assets attributable to businesses acquired during the year.

2 Turnover and operating profit

	2003 Continuing operations £m	**2003 Acquisitions £m**	**2003 Total £m**	2002 (as restated) £m
Turnover	**1,574.7**	**351.2**	**1,925.9**	1,508.5
Cost of sales	**(1,169.0)**	**(326.4)**	**(1,495.4)**	(1,093.0)
Gross profit	**405.7**	**24.8**	**430.5**	415.5
Distribution costs	**(50.1)**	**(4.3)**	**(54.4)**	(42.4)
Administrative expenses	**(202.6)**	**(15.8)**	**(218.4)**	(170.2)
Other operating income	**7.8**	**–**	**7.8**	10.5
Operating profit	**160.8**	**4.7**	**165.5**	213.4
Exceptional items included above are:				
In cost of sales	**(41.8)**	**–**	**(41.8)**	(6.2)
In administrative expenses	**(9.3)**	**–**	**(9.3)**	–

	2003 £m	2002 £m
Operating profit is stated after charging the following items:		
In normal trading		
Depreciation of tangible fixed assets	**88.5**	79.6
Amortisation of goodwill	**6.4**	1.0
Operating lease payments – land and buildings	**58.1**	51.5
Operating lease payments – plant and machinery	**14.1**	10.0
In exceptional items		
Restructuring charges	**41.8**	–
Impairment of fixed assets (including goodwill)	**–**	6.2
Amounts provided for legal settlements	**9.3**	–

The exceptional restructuring charges of £41.8m relate to restructuring of Deluxe Media Services (£35.8m) and the integration of Blue Square with Rank Interactive Gaming (£6.0m).

In North America, the transition from VHS to DVD involved the gradual relocation of DVD replication capacity from California to replace existing VHS capacity in Arkansas. This relocation programme is now complete and, as a consequence, the DVD plants in Ontario and Carson, California have been closed. This gave rise to an exceptional charge of £15.4m comprising redundancy costs of £3.2m, asset write-offs of £3.9m and property related costs of £8.3m.

The decline in VHS volumes and the consequent restructuring of Arkansas for DVD has led to a reassessment of the carrying value of the Group's VHS assets. This has resulted in an impairment charge of £20.4m being made against those assets.

Blue Square was acquired for £65.0m in January 2003. The business was integrated with Rank Interactive Gaming, generating £5.0m of annualised operating cost savings. The cost of achieving these savings was £6.0m and this has been included as an exceptional charge in these results. The charge includes redundancy costs of £3.4m and asset write-offs of £2.6m.

The exceptional charges for legal settlements (£9.3m) relate to a number of legal actions in the US.

The exceptional charge in 2002 reflects an impairment to the value of Deluxe's investment in the ex-Pioneer DVD facility which crystallised as a result of the venture with Ritek Corporation.

2 Turnover and operating profit continued

During the year the Group's Auditors, PricewaterhouseCoopers LLP, earned the following fees:

	2003 £m	2002 £m
Audit fees		
UK	**0.8**	0.7
Overseas	**0.7**	0.6
	1.5	1.3
Non-audit services		
UK	**0.6**	1.0
Overseas	**0.2**	0.6
	0.8	1.6
	2.3	2.9
Audit services were as follows:		
Statutory audit	**1.4**	1.2
Audit related regulatory reporting	**0.1**	0.1
	1.5	1.3
Non-audit services were as follows:		
Further assurance services	**0.5**	1.2
Compliance services	**0.2**	0.2
Tax advisory services	**0.1**	0.2
	0.8	1.6

The Auditors' remuneration for the Company was £52,000 (2002 – £50,000).

It is the Group's policy to employ PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally in the areas of transaction services, stock exchange transactions and tax advice. The Group's policy is, where appropriate, that work is put out to competitive tender. The Audit Committee monitors the relationship with PricewaterhouseCoopers LLP, including the level of non-audit fees.

3 Non-operating items

	2003 £m	2002 £m
Profit on disposal of previously discontinued operations	**4.6**	–
Net loss (including provision for loss) on disposal of continuing operations	**–**	(0.8)
Net loss on disposal of fixed assets in joint venture – discontinued	**–**	(1.0)
Profit on disposal of interest in discontinued joint venture	**–**	7.7
Non-operating items before interest and tax	**4.6**	5.9

The non-operating items reflect the write back of provisions set up on the disposal of businesses in 1999 and 2000 which are no longer considered necessary.

4 Net interest payable and similar charges

	2003 £m	2002 £m
Interest payable on bank loans and overdrafts	**1.0**	0.8
Interest payable on other loans	**42.4**	30.0
Finance charges on finance leases	**0.5**	0.9
Release of discount on provisions	**0.9**	1.3
Interest payable and other similar charges	**44.8**	33.0
Profit on disposal of Seminole Indian bond	**(2.1)**	–
Interest receivable from deposits and current asset investments	**(13.0)**	(9.5)
Net profit on redemption of fixed rate debt	**–**	(0.9)
	29.7	22.6
Exceptional premium payable on redemption of £125m Eurobond	**11.5**	–
	41.2	22.6

5 Taxation on profit on ordinary activities

(a) Analysis of tax charge in year

	2003			2002		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
UK corporation tax						
Current	**20.1**	**(2.1)**	**18.0**	21.3	–	21.3
Prior year	**(17.6)**	**(4.0)**	**(21.6)**	(0.6)	–	(0.6)
	2.5	**(6.1)**	**(3.6)**	20.7	–	20.7
Overseas tax						
Current	**11.7**	**–**	**11.7**	9.5	–	9.5
Prior year	**(1.0)**	**–**	**(1.0)**	–	–	–
	10.7	**–**	**10.7**	9.5	–	9.5
Taxation on share of profits of associated undertakings and joint ventures	**0.2**	**–**	**0.2**	1.4	(0.6)	0.8
Total current tax	**13.4**	**(6.1)**	**7.3**	31.6	(0.6)	31.0
UK deferred tax						
Timing differences	**12.9**	**(8.7)**	**4.2**	4.6	–	4.6
Overseas deferred tax						
Timing differences	**27.9**	**(11.3)**	**16.6**	23.6	–	23.6
Total deferred tax	**40.8**	**(20.0)**	**20.8**	28.2	–	28.2
Tax on profit (loss) on ordinary activities	**54.2**	**(26.1)**	**28.1**	59.8	(0.6)	59.2

The tax credit on the exceptional charge is £13.4m. In addition, an exceptional tax credit of £12.7m has been recognised in respect of tax liabilities provided on the disposal of the Holidays business which are no longer required.

(b) Taxation reconciliation

The tax charge for the year is lower than the standard rate of UK corporation tax (30%). The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before tax	**129.3**	198.0
Profit on ordinary activities before tax at 30% (2002 – 30%)	**38.8**	59.4
Effects of:		
Permanent differences	**23.0**	(0.5)
Capital allowances in excess of depreciation	**(8.2)**	(4.2)
Differences in overseas tax rates	**(21.0)**	(23.4)
Adjustments relating to prior years	**(22.6)**	(0.6)
Other timing differences	**(2.7)**	0.3
Total current tax	**7.3**	31.0

The effective tax rate for the year has been reduced by a number of adjustments relating to prior years.

6 Profit attributable to the parent company

The loss for the financial year in the accounts of The Rank Group Plc was £1.9m (2002 – profit of £0.2m). As permitted by S. 230 Companies Act 1985, no profit and loss account is presented in respect of The Rank Group Plc.

7 Dividends and other appropriations

	2003 £m	2002 £m
Convertible preference shares – non-equity		
Dividends payable for the period	**17.1**	18.8
Provision for redemption premium	**–**	2.2
	17.1	21.0
Ordinary shares – equity		
Interim declared of 4.6p per share (2002 – 4.4p)	**27.3**	26.1
Final proposed of 9.3p per share (2002 – 8.8p)	**55.5**	52.1
	82.8	78.2

8 Earnings per Ordinary share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary shares in issue during the year, excluding those held in the employee benefit trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares comprising those share options granted to employees where the exercise price is less than the average price of the Company's Ordinary shares during the year and the Company's convertible preference shares.

	2003			2002		
	Before exceptional items	**Exceptional items**	**Total**	Before exceptional items	Exceptional items	Total
Basic earnings before goodwill amortisation (£m)	**119.2**	**(29.1)**	**90.1**	118.2	(1.7)	116.5
Weighted average number of Ordinary shares (m)			**592.3**			589.2
Basic earnings (loss) per Ordinary share before goodwill amortisation	**20.1p**	**(4.9)p**	**15.2p**	20.1p	(0.3)p	19.8p
Basic earnings (£m)	**113.7**	**(29.1)**	**84.6**	117.4	(1.7)	115.7
Weighted average number of Ordinary shares (m) – basic			**592.3**			589.2
Basic earnings (loss) per Ordinary share	**19.2p**	**(4.9)p**	**14.3p**	19.9p	(0.3)p	19.6p
Diluted earnings (£m)	**114.5**	**(29.1)**	**85.4**	117.4	(1.7)	115.7
Weighted average number of Ordinary shares (m) – diluted			**618.5**			592.4
Diluted earnings (loss) per Ordinary share	**18.5p**	**(4.7)p**	**13.8p**	19.8p	(0.3)p	19.5p

Earnings per share before exceptional items has been calculated to show the impact of exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

9 Intangible fixed assets

	Goodwill £m
Cost at 31 December 2002	58.7
Currency translation adjustment	(3.7)
Additions (note 26)	77.1
Fair value adjustments	4.0
Cost at 31 December 2003	**136.1**
Amortisation at 31 December 2002	6.4
Currency translation adjustment	(0.6)
Amortisation for the year	6.4
Amortisation at 31 December 2003	**12.2**
Net book amount at 31 December 2003	**123.9**
Net book amount at 31 December 2002	52.3

10 Tangible fixed assets

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Payments on account and assets in course of construction £m	Total £m
Group				
Cost at 31 December 2002	576.6	664.4	12.0	1,253.0
Currency translation adjustment	(11.0)	(11.1)	(0.4)	(22.5)
Additions	25.1	82.2	10.6	117.9
Acquisition of subsidiary undertakings (note 26)	8.5	20.9	0.3	29.7
Disposals	(7.5)	(50.7)	(0.4)	(58.6)
Transfers	8.7	3.4	(12.1)	–
Cost at 31 December 2003	**600.4**	**709.1**	**10.0**	**1,319.5**
Depreciation at 31 December 2002	107.3	365.0	–	472.3
Currency translation adjustment	(4.7)	(7.7)	–	(12.4)
Disposals	(0.7)	(46.4)	–	(47.1)
Provision for impairment	4.3	10.7	–	15.0
Depreciation for the year	15.1	73.4	–	88.5
Depreciation at 31 December 2003	**121.3**	**395.0**	**–**	**516.3**
Net book amount at 31 December 2003	**479.1**	**314.1**	**10.0**	**803.2**
Net book amount at 31 December 2002	469.3	299.4	12.0	780.7

(a) Land with a net book amount of £72.9m (2002 – £69.3m) is not depreciated. The net book amount of tangible assets for the Group includes £3.1m (2002 – £3.1m) of interest capitalised.

(b) The book amounts for fixtures, fittings, plant and machinery include the following amounts in respect of assets held under finance leases: cost £19.2m (2002 – £12.3m), accumulated depreciation £5.3m (2002 – £3.4m), net book amount £13.9m (2002 – £8.9m). The depreciation charge in the year in respect of these assets was £3.5m (2002 – £1.8m).

	2003 £m	2002 £m
The net book amount of land and buildings comprises:		
Freeholds	**262.0**	267.4
Long leases (over 50 years unexpired)	**27.4**	27.2
Short leases	**189.7**	174.7
	479.1	469.3

Notes to the Accounts continued

11 Investments in subsidiary undertakings

	Company £m
Balances at 31 December 2002 (net of provisions of £1,083.0m)	1,697.0
Additions	65.7
Balances at 31 December 2003 (net of provisions of £1,083.0m)	**1,762.7**

On 27 January 2003 the Group acquired 100% of the issued share capital of Blue Square Limited for a total consideration of £65.7m. Further details on the acquisition are provided in note 26.

Details of principal subsidiary undertakings are given on page 77.

12 Interests in joint ventures (unlisted)

	Participating interests £m
Balances at 31 December 2002	5.4
Currency translation adjustment	0.9
Share of profits after distributions	0.5
Balances at 31 December 2003	**6.8**

	2003 £m	2002 £m
Share of retained profit (loss) for the period		
Share of profits less losses after taxation	**0.5**	(0.1)
Dividends and distributions receivable by the Group	**–**	–
Amounts retained attributable to the Group	**0.5**	(0.1)

The Group's interests in joint ventures at 31 December 2002 and 2003 comprised 50% of the ordinary share capital of Atlab Holdings Pty Limited (Atlab). The remaining share capital is owned by Amalgamated Holdings Limited. The principal activity of Atlab is as an investment holding company. The company holds the investment in the Atlab Group of operating companies whose principal activities are film processing in Australasia.

On 18 June 2003, the Group formed a joint venture between Hard Rock Hotels and Resorts and Sol Meliá SA, to develop the Hard Rock Hotel concept throughout the Americas and Europe.

13 Interests in associated undertakings (unlisted)

	Group £m
Balances at 31 December 2002	4.0
Currency translation adjustment	(0.2)
Transfers to subsidiary undertakings	(0.5)
Share of losses after distributions	(0.3)
Balances at 31 December 2003	**3.0**

	2003 £m	2002 £m
Share of retained loss for the period		
Share of operating loss	**(0.3)**	(0.5)
Amounts retained attributable to the Group	**(0.3)**	(0.4)

At 31 December 2002 the Group owned 33⅓% of the common stock of The Lab in Toronto, Inc (The Lab), a film laboratory in Toronto that principally offers developing services to the feature film, television and commercial markets. On 1 July 2003 the Group acquired the remaining 67⅔% of the common stock of The Lab. Further details on the acquisition are provided in note 26.

At 31 December 2003 the Group's interests in associated undertakings comprises 20% of the equity of EFILM LLC (EFILM), a Delaware limited liability company whose principal activity is the digital production of film elements necessary for bulk film processing.

14 Other investments

	Group £m	Company £m
Balances at 31 December 2002	58.0	9.8
Currency translation adjustment	(4.3)	–
Additions	6.5	3.6
Disposals	(6.4)	(6.4)
Balances at 31 December 2003	**53.8**	**7.0**

Other investments comprises £22.2m (2002 – £22.3m) in relation to the Group's 10% equity investment in Universal Studios Japan, £19.6m (2002 – £23.3m) in relation to the Group's investment in the Universal Rank Hotel partnership in the US, £4.2m (2002 – £2.0m) in relation to the Group's investment in the Hard Rock hotel partnership in Chicago, £7.0m (2002 – £9.8m) in respect of 2,752,076 (2002 – 3,897,157) Ordinary shares in The Rank Group Plc held at cost by the Rank Group Employee Benefit Trust (the Trust), £0.6m (2002 – £0.6m) in respect of the Group's 10% equity investment in Medal Entertainment & Media plc and £0.2m (2002 – £Nil) in respect of the Group's 20% investment in Fancy a Flutter Limited.

Dividends on the shares held by the Trust have been waived by the trustee with the exception of one penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustee may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise, although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company. The shares held by the Trust represent 0.5% of the Company's called up share capital. The market value of the shares held by the Trust on 31 December 2003 was £7.7m.

These shares were acquired by the Trust in the open market using funds provided by the Group to meet obligations under share schemes. The costs of administering the scheme are charged to the profit and loss account of the Group in the period which they relate to.

Notes to the Accounts continued

15 Stocks

	Group	
	2003 £m	2002 £m
Raw materials and consumables	**37.1**	36.8
Work in progress	**2.8**	2.0
Finished goods and goods for resale	**21.1**	27.1
Completed properties for resale	**9.2**	8.5
	70.2	74.4

16 Debtors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year				
Trade debtors	**202.7**	209.5	**–**	–
Other debtors	**66.8**	57.3	**11.9**	–
Assets held for disposal	**–**	1.6	**–**	–
Instalment sale debtors and notes receivable	**1.3**	3.1	**–**	–
Advance contract payments	**101.6**	68.7	**–**	–
Deferred tax asset (note 22)	**31.6**	37.0	**–**	–
Prepayments and accrued income	**41.6**	34.6	**1.5**	–
	445.6	411.8	**13.4**	–
Amounts falling due after more than one year				
Other debtors	**36.2**	11.7	**–**	–
Instalment sale debtors and notes receivable	**20.0**	27.7	**–**	–
Advance contract payments	**216.0**	210.5	**–**	–
Deferred tax asset (note 22)	**58.1**	68.9	**–**	–
Prepayments and accrued income	**0.5**	0.9	**–**	–
	330.8	319.7	**–**	–

Further details on the movement in advance contract payments are provided below:

	Group £m
Balance at 31 December 2002	279.2
Amortisation charge for the year	(93.6)
Additions	156.4
Currency translation adjustment	(24.4)
Balance at 31 December 2003	**317.6**

17 Cash, deposits and current asset investments

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Cash, current accounts and overnight deposits	**167.6**	81.7	**0.1**	–
Term deposits	**0.3**	1.5	**–**	–
	167.9	83.2	**0.1**	–
Current asset investments	**4.2**	24.0	**–**	–
Cash, deposits and current asset investments (notes 27, 28)	**172.1**	107.2	**0.1**	–

Current asset investments comprise amounts invested in cash and fixed deposit funds operated by external fund managers. The investments can be readily converted into cash. The funds are placed with counterparties with strong credit ratings. Cash, deposits and current asset investments are receiving interest at floating rates in their currency of denomination, with 78% of the total being held in sterling, 15% in US dollars and 7% in euros.

18 Loan capital and borrowings

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Bank overdrafts	**25.6**	10.1	**–**	–
Other borrowings repayable:				
Within one year or on demand	**266.5**	28.7	**147.1**	–
Between one and two years	**3.4**	140.3	**–**	–
Between two and five years	**316.4**	124.7	**–**	–
In five years or more	**260.7**	202.5	**–**	–
	847.0	496.2	**147.1**	–
Total	**872.6**	506.3	**147.1**	–
Unsecured convertible bond	**65.0**	–	**65.0**	–
Unsecured	**797.4**	500.0	**82.1**	–
Obligations under finance leases	**10.2**	6.3	**–**	–
Total	**872.6**	506.3	**147.1**	–
Amounts due within one year or on demand	**292.1**	38.8	**147.1**	–
Amounts due after more than one year	**580.5**	467.5	**–**	–
Loan capital and borrowings (notes 27, 28)	**872.6**	506.3	**147.1**	–

The Group had the following undrawn committed borrowing facilities available at 31 December 2003 and 2002:

	2003 £m	2002 £m
Expiring between one and two years	**–**	113.2
Expiring after more than two years	**200.0**	–
Loan capital and borrowings	**200.0**	113.2

The analysis of other borrowings repayable includes £65.0m convertible bonds (2002 – £Nil). The bonds due 2004 are convertible at the option of the holder into fully paid Ordinary shares at £2.82 per share. Interest is paid annually on 31 December. None of the bonds were converted during the year. If the conversion rights attached to the bonds outstanding at 31 December 2003 were exercised, 23m Ordinary shares would fall to be issued. Unless previously redeemed or converted, the bonds will be redeemed at par on 31 December 2004.

The analysis of other borrowings repayable above includes obligations under finance leases, of which £6.2m (2002 – £2.7m) expire within one year, £2.9m (2002 – £3.4m) expire between one and two years, £0.7m (2002 – £0.2m) expire between two and five years, and £0.4m (2002 – £Nil) expire after five years.

Borrowings shown above include:

(a) £304.2m Private Placements (£35m, $482m) redeemable at par in 2007, 2010, 2013, 2015 (issued 2003);
(b) £111.7m US$200m 6.75% Yankee bonds redeemable at par in 2004 (issued 1997);
(c) £55.8m US$100m 6.375% Yankee bonds redeemable at par in 2008 (issued 1998);
(d) £13.9m US$24.8m 7.125% Yankee bonds redeemable at par in 2018 (issued 1998);
(e) £65.0m convertible unsecured loan stock redeemable at par December 2004 (issued 2003); and
(f) £82.1m unsecured amortising loan due December 2004 (arranged 2003).

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity, and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements.

The Company had £147.1m of borrowings at 31 December 2003 (2002 – £Nil).

The finance costs of debt instruments are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount. Such costs include the costs of issue, any discount to face value arising on issue and any premium payable on maturity.

19 Financial instruments

A description of the policies relating to financial instruments is set out in the Operating and Financial Review on page 34, and also in the accounting policies on page 51. Short term debtors and creditors have been excluded from all the following disclosures other than within the currency risk disclosures.

(a) Interest risk management

Financial liabilities

Some 35% of the Group's loan capital and borrowings is at fixed rates of interest with a weighted average interest rate of 6.0% (2002 – 7.0%) and a weighted average term of 5.0 years (2002 –5.3 years). At 31 December 2003, the Group's net debt was predominantly denominated in US dollars.

Gross borrowings of £1,177.3m include loan capital and borrowings of £872.6m (note 18), and the effect of currency and interest rate swaps. After taking account of interest rate and currency rate swaps, the currency and interest rate exposure of gross borrowings as at 31 December 2003 and 2002 was:

			Fixed rate borrowings		
2003	**Gross borrowings £m**	**Floating rate borrowings £m**	**Fixed rate borrowings £m**	**Weighted average interest rate %**	**Weighted average time for which rate is fixed years**
Sterling	**474.6**	**286.4**	**188.2**	**5.4**	**2.6**
US/Canadian dollar	**570.5**	**344.1**	**226.4**	**6.0**	**9.4**
Other currencies (net)	**132.2**	**129.8**	**2.4**	**3.4**	**2.6**
	1,177.3	**760.3**	**417.0**	**6.0**	**5.0**

			Fixed rate borrowings		
2002	Gross borrowings £m	Floating rate borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Weighted average time for which rate is fixed years
Sterling	213.9	86.3	127.6	7.3	5.2
US/Canadian dollar	441.7	372.9	68.8	6.8	5.6
Other currencies (net)	111.7	111.7	–	–	–
	767.3	570.9	196.4	7.0	5.3

Floating rate borrowings incur interest based on relevant LIBOR equivalents.

In addition to the amounts disclosed in the above tables, the following meet the definition of financial liabilities:

– the Group's provisions of £13.6m (2002 – £24.8m) for vacant leasehold properties (note 21) are considered to be floating rate financial liabilities. This is because in establishing the provisions, the cash flows have been discounted using a discount rate which is re-appraised at each half-yearly reporting date to ensure it reflects current market assessments of the time value of money and the risks specific to the liability. £12.7m (2002 – £23.0m) of the balance is denominated in sterling and the remainder in US dollars.

– £54.1m (2002 – £22.3m) of the Group's contract advances which are payable after more than one year. No interest is payable on these US dollar denominated financial liabilities.

– £11.9m (2002 – £26.8m) of deferred consideration payable after more than one year in respect of the acquisition of subsidiary undertakings. Of this, £2.1m is denominated in US dollars, £8.5m in sterling, with the balance denominated in Euros and Canadian dollars.

Financial assets

The financial assets shown below include cash, deposits and current asset investments of £172.1m (note 17) and the sterling element of currency rate swaps.

	2003 £m	2002 £m
Sterling	**373.3**	302.1
US/Canadian dollar	**78.0**	51.6
Other currencies	**25.5**	14.5
Cash, investments and other financial assets	**476.8**	368.2

19 Financial instruments continued

Floating rate cash earns interest based on relevant LIBID equivalents, and investments earn interest according to the performance of the funds in which they are invested.

In addition to the amounts disclosed in the previous tables, the following meet the definition of financial assets:

– £216.0m of the Group's contract advances which are receivable after more than one year. No interest is payable on these US dollar denominated financial assets.

– £46.8m of investments in equity shares have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

2003 – Instalment sale debtors and notes receivable after one year	**Total asset £m**	**Floating rate asset £m**	**Fixed rate assets: Fixed rate asset £m**	**Fixed rate assets: Weighted average interest rate %**	**Fixed rate assets: Weighted average time for which rate is fixed years**
US dollar	**20.0**	**11.3**	**8.7**	**13.2**	**4.3**

2002 – Instalment sale debtors and notes receivable after one year	Total asset £m	Floating rate asset £m	Fixed rate assets: Fixed rate asset £m	Fixed rate assets: Weighted average interest rate %	Fixed rate assets: Weighted average time for which rate is fixed years
US dollar	27.7	15.6	12.1	13.6	4.6

Floating rate instalment sale debtors and notes receivable after one year earn interest based on three and five year US treasury bills.

(b) Maturity of financial liabilities

The maturity of loan capital and borrowings is given in note 18 above.

For other financial liabilities, note 21 provides an indication of the nature of the underlying liabilities in respect of provisions. The maturity profile of these liabilities, together with deferred consideration and contract advances, is as follows:

	Onerous contracts £m	Contract advances £m	Deferred consideration £m	**2003 £m**	2002 £m
Within one year or on demand	3.7	–	–	**3.7**	9.0
Between one and two years	3.1	26.3	5.6	**35.0**	27.2
Between two and five years	4.5	27.8	6.3	**38.6**	20.0
Over five years	2.3	–	–	**2.3**	17.7
	13.6	54.1	11.9	**79.6**	73.9

(c) Exchange risk management

After taking into account the effect of forward exchange contracts, there are no material net monetary assets/liabilities of Group companies denominated in currencies other than the relevant Group company's own functional currency.

The Group operates a prudent hedging policy relating to its cross currency business trading cash flows. Currency exposures are netted by currency and hedged forward for up to five years using forward foreign exchange contracts. At the year-end approximately 80% of anticipated core currency transaction exposures had been hedged, depending on, amongst other things, the certainty of the exposure. The fair value of these hedges is set out in section (d) below.

(d) Fair values

The estimated fair values of the Group's financial assets and financial liabilities at 31 December 2003 and 2002 are set out below. The fair value of quoted borrowings is based on year-end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year-end.

19 Financial instruments continued

Primary financial instruments held or issued to finance the Group's operations are as follows:

	Net carrying amount 2003 £m	Fair value 2003 £m	Net carrying amount 2002 £m	Fair value 2002 £m
Short term financial liabilities and current portion of long term borrowings	**(292.1)**	**(301.0)**	(175.6)	(175.6)
Long term borrowings	**(580.5)**	**(577.6)**	(330.7)	(338.1)
Cash at bank and liquid investments	**172.1**	**172.1**	107.2	107.6
Other financial assets	**20.0**	**20.0**	27.7	27.7
Convertible preference shares	**–**	**–**	(226.9)	(237.7)
Other financial liabilities	**(79.6)**	**(79.6)**	(73.9)	(73.9)

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instruments based on valuations at 31 December 2003. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Financial derivative instruments

The estimated current value of the foreign exchange forward contracts and interest rate swaps entered into to hedge future transaction flows and on-balance sheet exposures based on quoted market prices is set out below.

	Book value 2003 £m	Current value 2003 £m	Book value 2002 £m	Current value 2002 £m
Interest rate swaps	**–**	**(0.4)**	–	10.5
Foreign exchange forward rate contracts	**–**	**2.3**	–	4.4
Foreign currency swaps	**2.0**	**2.0**	3.0	3.0
Commodity forwards	**–**	**(0.6)**	–	–

(e) Hedges

As explained in the Operating and Financial Review on page 34, the Group's policy is to hedge the following exposures:

– Interest rate risk, using interest and currency swaps; and

– Currency risk, using forward foreign currency contracts for foreign currency receipts and payments. Forward foreign currency contracts are also used for currency exposures on future years' forecasted sales.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

	Unrecognised		
	Gains £m	Losses £m	Total net gains (losses) £m
Gains and losses on hedges at 1 January 2003	**15.8**	**(0.9)**	**14.9**
Arising in previous years included in 2003 income	**(26.6)**	**4.2**	**(22.4)**
Gains and losses not included in 2003 income:			
Arising before 1 January 2003	**(10.8)**	**3.3**	**(7.5)**
Arising in 2003 on pre 1 January 2003 contracts	**11.0**	**(5.1)**	**5.9**
Arising in 2003 on 2003 contracts	**5.0**	**(2.1)**	**2.9**
Gains and losses on hedges at 31 December 2003	**5.2**	**(3.9)**	**1.3**
of which:			
Gains and losses expected to be included in 2004 income	**5.2**	**(3.8)**	**1.4**
Gains and losses expected to be included in 2005 income or later	**–**	**(0.1)**	**(0.1)**
	5.2	**(3.9)**	**1.3**

There are no significant deferred gains or losses on hedge transactions.

19 Financial instruments continued

(f) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

(g) Credit risk

The counterparties to the forward exchange contracts and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

20 Other creditors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year				
Trade creditors	**121.5**	104.9	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**709.0**	471.8
Other creditors	**91.2**	52.0	**–**	–
Other tax and social security	**14.4**	10.1	**–**	–
UK corporation tax and overseas taxation	**20.6**	25.6	**11.0**	–
Deferred consideration	**22.5**	19.2	**–**	–
Accrued dividends on convertible preference shares	**0.3**	7.8	**0.3**	7.8
Proposed final dividend on Ordinary shares	**55.5**	52.1	**55.5**	52.1
Contract advances payable	**34.3**	20.5	**–**	–
Accruals and deferred income	**81.4**	111.3	**12.4**	3.4
	441.7	403.5	**788.2**	535.1
Amounts falling due after more than one year				
Other creditors	**7.8**	4.0	**–**	–
UK corporation tax and overseas taxation	**31.2**	30.3	**–**	–
Deferred consideration	**11.9**	26.8	**–**	–
Contract advances payable	**54.1**	22.3	**–**	–
Accruals and deferred income	**0.7**	0.1	**–**	–
	105.7	83.5	**–**	–

21 Provisions for liabilities and charges

	Onerous contracts £m	Restructuring costs £m	Provisions on disposals £m	Other £m	Total £m
Group					
Balances at 31 December 2002	24.8	3.0	11.1	12.6	51.5
Currency translation adjustment	(0.1)	(1.1)	–	(0.4)	(1.6)
Acquisition of subsidiary undertakings	–	0.7	–	–	0.7
Profit and loss account					
– operating (release) charge	(0.2)	0.4	(0.4)	4.1	3.9
– exceptional operating items	–	26.9	–	8.4	35.3
– non-operating items discontinued	–	–	(4.0)	–	(4.0)
Net interest: release of discount	0.9	–	–	–	0.9
Utilised in the year	(11.8)	(14.9)	(4.0)	(9.7)	(40.4)
Balances at 31 December 2003	**13.6**	**15.0**	**2.7**	**15.0**	**46.3**

	Other £m
Company	
Balance at 31 December 2002 and 31 December 2003	2.2

Onerous contracts
The Group is party to a number of leasehold property contracts. Provision has been made against those leases where the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. The provision made in the year includes costs relating to properties which have become surplus to requirements. Further details on the maturity profile of this provision are provided in note 19.

Restructuring costs
The restructuring costs held at 31 December 2003 relate to the provisions established in 2003 by the exceptional charge described in note 2.

Provisions on disposals
This provision was established in 2000 following the disposal of Nightscene, Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays. Various provisions which were made at the time of the disposals are now no longer deemed to be necessary, resulting in a release of £4.0m. The provision remaining at 31 December 2003 relates to outstanding insurance claims and potential warranty claims as described in the sales contracts.

Other provisions
Other provisions include amounts relating to the Rank Group 2000 Long Term Incentive Plan which provides for executive Directors and selected executives to be given restricted awards over existing Ordinary shares with a market value of up to one times base salary. These awards will vest in 2004 and 2005, subject to satisfaction of applicable performance conditions.

22 Deferred tax

The analysis of the deferred tax asset included in the financial statements at the end of the year is as follows:

	Group	
	2003 £m	2002 £m
Accelerated capital allowances	**15.6**	15.4
Other UK timing differences	**(5.0)**	(1.2)
Tax losses carried forward	**57.5**	72.1
Other overseas timing differences	**21.6**	19.6
	89.7	105.9

The movement in the deferred tax asset is provided below:

	Group £m
Balance at 31 December 2002	105.9
Companies acquired in 2003	12.5
Currency translation adjustment	(7.9)
Charge to the profit and loss account (see note 5a)	(20.8)
Balance at 31 December 2003	**89.7**

The Group has provided for a deferred tax asset in respect of tax losses carried forward because it believes that there will be future taxable profits against which the underlying differences will reverse.

23 Capital and reserves

	2003				2002			
	Authorised		**Issued and fully paid**		Authorised		Issued and fully paid	
	Number m	**Nominal value £m**	**Number m**	**Nominal value £m**	Number m	Nominal value £m	Number m	Nominal value £m
US$ cumulative preference shares	**–**	**3**	**–**	**–**	–	3	–	–
Convertible preference shares of 20p each	**–**	**–**	**–**	**–**	300	60	226.9	45.4
Ordinary shares of 10p each	**1,200**	**120**	**596.2**	**59.6**	1,200	120	594.1	59.4
		123		**59.6**		183		104.8

Under the share savings schemes operated by the Company, employees hold options to subscribe for up to 6,996,020 (2002 – 6,114,307) Ordinary shares at prices between 141p and 271.58p per share exercisable by 30 November 2008.

Under the executive share option schemes operated by the Company, Directors and executives hold options to subscribe for up to 13,897,085 (2002 – 13,878,632) Ordinary shares at prices ranging between 155.25p and 475.76p per share exercisable over the period up to 11 September 2013.

Options granted pursuant to share savings schemes are issued at a discount to the prevailing market price. Under the provisions of UITF 17 (Revised 2000) no provision is required for the difference between market price and exercise price.

Options granted under the share savings schemes are exercisable normally within a period of six months after the third or fifth anniversary of the related savings contract. Options granted under the executive share option schemes are exercisable normally within a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant.

During the year 229,982 Ordinary shares were issued by virtue of the conversion of 847,644 convertible preference shares. A further 1,804,056 Ordinary shares were issued during the year on the exercise of options.

During the year the remaining 226,086,041 convertible preference shares were redeemed at 100p per share. The shares were redeemed to reduce the Group's cost of finance. The shares represented 100% of issued non-equity share capital and 43% of total issued share capital.

23 Capital and reserves continued

	£m
Share premium account	
Balance at 31 December 2002	13.6
Movement on issue of shares	3.9
Balance at 31 December 2003	**17.5**

	£m
Capital redemption reserve	
Balances at 31 December 2002 and 31 December 2003	**24.8**

	Company and its subsidiaries			
Other reserves	Preference redemption £m	Other £m	Associated undertakings £m	Group £m
Group				
Balances at 31 December 2002	13.6	593.5	(1.7)	605.4
Currency translation adjustment	–	(1.4)	–	(1.4)
Surplus on profit and loss account for the year	–	1.8	–	1.8
Redemption of convertible preference shares	(13.6)	(167.1)	–	(180.7)
Balances at 31 December 2003	**–**	**426.8**	**(1.7)**	**425.1**

Of the £1.4m loss on other net currency translation adjustments, a gain of £27.5m arises from the translation of foreign currency borrowings less deposits. The total cumulative goodwill eliminated against reserves at 31 December 2003 amounted to £909.0m (2002 – £957.0m).

Other reserves	Preference redemption £m	Other £m	Total £m
Company			
Balances at 31 December 2002	13.6	1,012.7	1,026.3
Deficit on profit and loss account for the year	–	(101.8)	(101.8)
Redemption of convertible preference shares	(13.6)	(167.1)	(180.7)
Balances at 31 December 2003	**–**	**743.8**	**743.8**

24 Analysis of minority interests

	Equity total £m
Balances at 31 December 2002	20.1
Currency translation adjustment	(1.4)
Minority interest in the profit on ordinary activities after tax	(0.5)
Distributions to minority interests	(2.1)
Balances at 31 December 2003	**16.1**

25 Reconciliation of operating profit to operating cash flows

	2003 £m	2002 £m
Operating profit	**165.5**	213.4
Exceptional charges	**51.1**	6.2
Cash payments in respect of exceptional costs and provisions	**(34.8)**	(15.8)
Depreciation and goodwill amortisation	**94.9**	80.6
Decrease (increase) in stocks	**5.1**	(9.0)
Decrease (increase) in debtors	**5.9**	(212.8)
Increase in creditors	**2.3**	48.7
Other items	**1.9**	(4.0)
Net cash inflow from operating activities	**291.9**	107.3

26 Acquisition of subsidiary undertakings

	Disctronics book value £m	Disctronics accounting policy adjustments £m	Disctronics fair value adjustments £m	Fair value: Disctronics £m	Fair value: Blue Square £m	Fair value: Other £m	Total 2003 £m
Tangible fixed assets	**33.5**	**(4.7)**	**(6.5)**	**22.3**	**2.8**	**4.6**	**29.7**
Net current assets (liabilities) excluding cash	**4.4**	**–**	**(0.8)**	**3.6**	**(4.5)**	**0.4**	**(0.5)**
Deferred tax	**–**	**1.2**	**–**	**1.2**	**11.3**	**–**	**12.5**
Cash acquired	**0.2**	**–**	**–**	**0.2**	**1.4**	**–**	**1.6**
Borrowings acquired	**(4.0)**	**–**	**–**	**(4.0)**	**–**	**–**	**(4.0)**
Lease obligations acquired	**(7.8)**	**–**	**–**	**(7.8)**	**–**	**–**	**(7.8)**
Net assets acquired	**26.3**	**(3.5)**	**(7.3)**	**15.5**	**11.0**	**5.0**	**31.5**
Goodwill				**19.0**	**54.7**	**3.4**	**77.1**
Consideration				**34.5**	**65.7**	**8.4**	**108.6**
Satisfied by:							
Cash paid				**27.8**	**0.7**	**7.4**	**35.9**
Issue of convertible loan stock				**–**	**65.0**	**–**	**65.0**
Deferred consideration				**6.7**	**–**	**1.0**	**7.7**
				34.5	**65.7**	**8.4**	**108.6**

Significant acquisitions in 2003 are as follows:

Blue Square

On 27 January 2003 the Group acquired 100% of the issued share capital of Blue Square Limited, one of the UK's leading internet and telephone betting businesses, for a total consideration of £65.7m. The consideration includes the issue of £65.0m in nominal value of unsecured loan stock, convertible into Rank Ordinary shares at any time on or after 1 October 2003 at a price of 282p for every £1 of loan stock held. This represented a premium of 11% to the closing mid-market price of Rank Ordinary shares on Friday 17 January 2003, the latest practicable date prior to the acquisition. The loan notes carry a coupon of 5% per annum. Interest on the loan stock is payable on 31 December each year and, if conversion has not taken place prior to 31 December 2004, the loan stock will be redeemed on that date at par.

The only material fair value adjustment recorded against Blue Square was to recognise a deferred tax asset of £11.3m.

For the period since acquisition, turnover of £308.8m and operating profit of £1.0m before exceptional items and goodwill amortisation are included within the consolidated profit and loss account as continuing operations – acquisitions.

26 Acquisition of subsidiary undertakings continued

Disctronics

On 21 July 2003 the Group acquired 100% of the net assets of Disctronics, one of the largest independent DVD and CD replicators in Europe, for a total consideration of £34.5m of which £6.7m is deferred. £3.5m was paid on 2 January 2004 with the final instalment due on 3 January 2005.

The book value of the assets and liabilities acquired was reduced by £10.8m. Fair value adjustments totalled £7.3m of which £6.5m related to a decrease in tangible fixed assets. The accounting policy realignment of £3.5m included £4.7m to reduce tangible fixed assets and £1.2m to recognise a deferred tax asset.

For the period since acquisition, turnover of £39.7m and operating profit of £6.1m are included within the consolidated profit and loss account as continuing operations – acquisitions.

Other acquisitions

On 16 May 2003 the Group acquired certain assets and liabilities of Sonic Foundry, Inc., Sonic Foundry Media Services, Inc. and International Image Services, Inc for cash consideration of £3.5m. Sonic is a digital media asset management company based in Santa Monica, California USA and Toronto, Canada.

On 1 July 2003 the Group acquired the remaining 67⅔% of the common stock of The Lab in Toronto, Inc for total consideration of £1.4m. Deferred consideration of £0.6m is due in March 2005 and contingent consideration of £0.1m, based on pre-defined earnings targets, is also due in March 2005.

On 21 October 2003 the Group acquired a new bingo club in Santiago de Compostela for cash consideration of £2.3m.

On 11 December 2003 the Group acquired 100% of the issued share capital of A Heathorn (Course) Limited, an on-course bookmaker with pitches at major racecourses, for total consideration of £1.2m. £0.3m deferred consideration will be settled by 11 June 2005.

There is no material difference between the book value and fair value of other acquisitions.

Since acquisition, other acquisitions did not contribute materially to turnover or operating profit.

During the year £17.8m of deferred consideration was paid in respect of acquisitions made in prior years.

27 Reconciliation to net debt

	2003 £m	2002 £m
Increase (decrease) in cash in the year	**70.8**	(29.0)
Increase in debt and lease financing	**(303.3)**	(159.7)
Movement in liquid resources (a)	**(19.6)**	18.8
Decrease in net debt from cash flows	**(252.1)**	(169.9)
Convertible bond	**(65.0)**	–
Borrowings and leases acquired with subsidiaries	**(11.8)**	(10.9)
Gain on repayment of fixed rate debt	**–**	1.0
Currency translation adjustment	**27.5**	28.8
Increase in net debt in year	**(301.4)**	(151.0)
Net debt at 1 January	**(399.1)**	(248.1)
Net debt at 31 December	**(700.5)**	(399.1)
Cash, deposits and current asset investments (note 17)	**172.1**	107.2
Loan capital and borrowings (note 18)	**(872.6)**	(506.3)
Net debt at 31 December	**(700.5)**	(399.1)

(a) The movement in liquid resources consisted of purchases of deposits and investments of £4.5m (2002 – £25.1m) and sales of £24.1m (2002 – £6.3m).

28 Analysis of net debt

	31 December 2002 £m	Cash flow £m	Acquisitions (excluding cash) £m	Other non-cash changes £m	Currency translation adjustment £m	**31 December 2003 £m**
Cash in hand and at bank	83.2	86.3	–	–	(1.6)	**167.9**
Overdrafts	(10.1)	(15.5)	–	–	–	**(25.6)**
		70.8				**142.3**
Debt due after one year	(463.9)	(249.5)	(4.0)	111.7	29.2	**(576.5)**
Debt due within one year	(26.0)	(57.6)		(176.7)	–	**(260.3)**
Finance leases	(6.3)	3.8	(7.8)	–	0.1	**(10.2)**
		(303.3)				**(847.0)**
Liquid resources	24.0	(19.6)	–	–	(0.2)	**4.2**
Total	(399.1)	(252.1)	(11.8)	(65.0)	27.5	**(700.5)**

Liquid resources comprise current asset investments which, as described in note 17, represent amounts readily convertible into cash.

Other non-cash changes comprise the £65.0m loan stock issued as consideration for Blue Square.

29 Directors

(a) Directors' interests

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's executive share option scheme, and conditional awards under the long term incentive plan, are detailed in the Remuneration Report. Details of options to subscribe for Ordinary shares of the Company granted to or exercised by Directors in the year ended 31 December 2003 are also detailed in the Remuneration Report.

(b) Total emoluments of the Directors of The Rank Group Plc

	2003 £000	2002 £000
Fees	**113**	95
Base salaries, allowances and taxable benefits	**1,120**	1,043
Bonuses	**227**	407
Salary supplements	**64**	60
Aggregate emoluments	**1,524**	1,605
Pension contributions – defined contributions	**257**	238
Total emoluments	**1,781**	1,843
(c) Emoluments of Chairman	**177**	160
(d) Emoluments of highest paid Director	**1,003**	1,058

(e) Company policy on the remuneration of Directors and details of the remuneration of each Director are set out in the Remuneration Report on pages 37 to 41.

30 Employees

Employee costs	2003 £m	2002 £m
Wages and salaries	**353.2**	322.5
Social security costs	**36.3**	28.7
Other pension costs	**7.0**	6.3
	396.5	357.5

Average number of employees by geographical area	2003	2002
UK	**11,453**	10,628
North America	**8,971**	8,772
Rest of the World	**3,579**	2,462
	24,003	21,862

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) below are those required by that standard. FRS 17 "Retirement Benefits" was issued in November 2000 but does not require full implementation for the Group and Company in the current year. Phased transitional disclosures are required from 31 December 2001. The disclosures required are presented in (b) below.

(a) Provision for pension and similar obligations

UK The Group has two pension schemes for UK employees, both of which are contracted out of the State Second Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 2003 have been reported upon by their auditors without qualification.

The Rank Pension Plan (the Plan) is a defined benefit scheme with pensions fixed by reference to final pay and length of service. The market value of the Plan's assets at 5 April 2003 was £455.3m (2002 – £575.2m, 2001 – £589.9m).

Formal actuarial valuations of the Plan are carried out at least triennially by an independent actuary, Mercer Human Resource Consulting Limited. The most recent valuation has an effective date of 5 April 2001 and has been used to determine the pension charge for the year to 31 December 2003.

The main actuarial assumptions adopted were:

Valuation method	attained age
Rate of return on investments	
– pre retirement	6.25% p.a
– post retirement	5.25% p.a
Rate of increase of pensionable remuneration	3.75% p.a
Rate of discretionary pension increases	1.50% p.a
Rate of pensions in payment increases*	2.50% p.a

*Pensions in payment accrued post 5 April 1997 are entitled to increases in line with price inflation subject to a maximum of 5% per annum.

In prior years, the Plan has been valued under the projected unit method. Following the closure of the Plan to new entrants, the attained age valuation method has been adopted since 2001.

Assets were taken at their market value. As at the actuarial valuation date the value of the assets was sufficient to cover 109% of the accrued benefits allowing for expected future increases in earnings.

There was a net pension credit for the year to 31 December 2003 of £0.2m (2002 – a £0.6m expense). This was determined after recognising a credit of £4.7m resulting from spreading the expensing surplus of £36.5m as at 1 January 2001 over the average remaining service lives of the active members of the Plan.

The decline in stock market values since the actuarial valuation of the Plan on 5 April 2001 and the increase in accrued liabilities as a result of changes in financial conditions have resulted in a deficit in the fund at 31 December 2003, calculated in accordance with the requirements of FRS 17. Under current accounting policies these matters are not required to be reflected in the pension charge until the next formal actuarial valuation, which will take place no later than 5 April 2004.

During the year, the Group resolved to make an additional contribution of £10.0m to the Plan. £5.0m was paid in July 2003 and a further £5.0m will be paid in March 2004.

At 31 December 2003 there was a prepayment in debtors of £25.7m (2002 – £15.1m) resulting from the difference between pension costs charged in the accounts and the amounts funded to date.

30 Employees continued

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. The market value of its assets at 5 April 2003 was £34.7m (2002 – £35.4m). Group contributions to this scheme in the year to 31 December 2003 totalled £2.6m (2002 – £1.3m). There were no significant contributions outstanding.

US The Group operates defined contribution schemes in the US. Group contributions to these schemes totalled £3.1m (2002 – £3.9m). There were no significant contributions outstanding.

(b) FRS 17 "Retirement Benefits"

The Group has continued to adopt FRS 17 "Retirement Benefits" under the phased transitional arrangements allowed by the standard. The disclosures below relate to all retirement benefit plans in the UK.

A full actuarial valuation of the Plan was carried out at 5 April 2001 and updated by an independent actuary to 31 December 2003.

The main actuarial assumptions used to calculate the Plan's liabilities under FRS 17 are:

	2003	2002	2001
Valuation method	**projected unit**	projected unit	projected unit
Discount rate	**5.25%**	5.50%	6.00%
Inflation assumption	**2.75%**	2.25%	2.50%
Rate of increase in salaries	**4.00%**	3.50%	3.75%
Rate of increase of deferred pensions	**2.75%**	2.25%	2.50%
Rate of increase of pensions in payment			
– increases (5% LPI increases)	**2.75%**	2.25%	2.50%
– discretionary increases	**–**	1.25%	1.50%

The allowance for discretionary pension increases has been removed from the valuation of the Plan's liabilities as at 31 December 2003. The impact of this change is to reduce the total actuarial value of defined liabilities by £49.1m to £588.6m (before deferred tax).

The assets in the Plan and the expected rate of return were:

	Long term rate of return expected at 31 December 2003	**Value at 31 December 2003 £m**	Long term rate of return expected at 31 December 2002	Value at 31 December 2002 £m	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £m
Equities	**7.25%**	**352.2**	7.0%	280.0	7.5%	361.5
Government bonds	**4.75%**	**85.9**	4.5%	90.0	5.0%	106.0
Non-government bonds	**5.25%**	**63.1**	5.5%	66.4	6.0%	71.6
Insurance policies	**5.25%**	**11.6**	5.5%	13.3	6.0%	15.4
Cash	**3.75%**	**11.0**	4.0%	16.0	4.0%	11.0
Total market value of assets		**523.8**		465.7		565.5

The following amounts at 31 December 2003, 31 December 2002 and 31 December 2001 were measured in accordance with the requirements of FRS 17.

	2003 £m	2002 £m	2001 £m
Total market value of assets	**523.8**	465.7	565.5
Actuarial value of defined benefit liabilities	**(588.6)**	(556.6)	(528.6)
(Deficit) surplus in the Plan	**(64.8)**	(90.9)	36.9
Related deferred tax asset (liability)	**19.4**	27.3	(11.1)
Net pension (liability) asset	**(45.4)**	(63.6)	25.8

30 Employees continued

If FRS 17 had been adopted in the accounts, the Group's net assets and profit and loss reserve at 31 December 2003, 31 December 2002 and 31 December 2001 would have been as follows:

	2003 £m	2002 £m	2001 (as restated) £m
Net assets			
Net assets excluding pension asset	**525.1**	753.6	732.9
Pension (liability) asset	**(45.4)**	(63.6)	25.8
Net assets including pension (liability) asset	**479.7**	690.0	758.7

	2003 £m	2002 £m	2001 (as restated) £m
Reserves			
Profit and loss reserve excluding pension assets	**409.5**	578.4	570.1
Pension reserve	**(45.4)**	(63.6)	25.8
Profit and loss reserve	**364.1**	514.8	595.9

The Plan is closed to new entrants. Under the projected unit method of valuation, the current service cost will increase as the members of the Plan approach retirement.

The following amounts would have been recognised in the performance statements in the year to 31 December 2003 under the requirements of FRS 17:

	2003 £m	2002 £m
Operating profit		
Current service cost	**4.8**	5.0
Past service cost	**–**	–
Total operating charge	**4.8**	5.0
Other finance income		
Expected return on Plan assets	**28.5**	37.5
Interest on Plan liabilities	**(30.1)**	(31.3)
Net return	**(1.6)**	6.2
Statement of total recognised gains and losses		
Actual return less expected return on Plan assets	**39.7**	(122.4)
Experience gains and losses arising on Plan liabilities	**14.6**	17.5
Removal of allowance for discretionary pension increases	**49.1**	–
Changes in assumptions underlying the present value of Plan liabilities	**(81.3)**	(28.6)
Actuarial gain (loss) recognised	**22.1**	(133.5)

30 Employees continued

	2003 £m	2002 £m
Movement in (deficit) surplus during the year		
(Deficit) surplus in Plan at beginning of the year	**(90.9)**	36.9
Movement in year:		
Current service cost	**(4.8)**	(5.0)
Contributions	**10.4**	4.5
Past service costs	**–**	–
Other finance (expense) income	**(1.6)**	6.2
Actuarial gain (loss)	**22.1**	(133.5)
Deficit in Plan at end of the year	**(64.8)**	(90.9)

	2003	2002
Details of experience gains and losses for the year to 31 December 2003		
Difference between the expected and actual return on Plan assets:		
Amount (£m)	**39.7**	(122.4)
Percentage of Plan assets	**7.6%**	26%
Experience gains and losses on Plan liabilities:		
Amount (£m)	**14.6**	17.5
Percentage of the present value of Plan liabilities	**2.5%**	3%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	**22.1**	(133.5)
Percentage of the present value of Plan liabilities	**3.8%**	24%

31 Contingent liabilities

	2003 £m	2002 £m
Group		
Guarantees by the Company and by subsidiary undertakings	**27.3**	38.9

The Group is involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. The dispute centres upon the parties' contentions in relation to the accounts and the profits of the businesses based upon which an additional purchase consideration may be payable. The Directors are strongly resisting the payment of any further sum. At the present time the outcome to the Group cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that it is unlikely that the outcome of this dispute will have a material effect on the Group's financial position.

	2003 £m	2002 £m
Company		
Guarantees of advances to subsidiary undertakings	**888.9**	901.4

No security has been given in respect of any contingent liability.

32 Commitments

Future capital expenditure

At 31 December 2003 commitments for capital expenditure amounted to £35.6m (2002 – £24.1m) for the Group.

Group operating lease commitments

At 31 December 2003 commitments to make payments under operating leases in the following 12 months were:

	Land and buildings		Plant and machinery	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Leases expiring in one year	**3.3**	3.3	**0.5**	0.2
Leases expiring in two to five years	**8.2**	5.7	**14.3**	14.3
Leases expiring in more than five years	**49.3**	47.4	**–**	–
	60.8	56.4	**14.8**	14.5

33 Related party transactions

During the year the Group traded with its associate undertakings, The Lab and EFILM. Group sales to these associate undertakings totalled £1.0m, purchases totalled £0.3m, marketing fees totalled £0.3m and at 31 December 2003 EFILM owed the Group £0.7m. On 1 July 2003 the Group purchased the remaining 67⅔% of the common stock of The Lab as described in note 13. During the year the Group forgave EFILM trade debtors of £0.7m.

During the year the Group traded with its joint venture Atlab. Group sales to Atlab totalled £2.4m, purchases totalled £10.6m, marketing fees totalled £0.2m and at 31 December 2003 Atlab owed the Group £0.3m. The Group also provides Atlab with a bank guarantee for £3.2m.

The Group recharges the Rank Group UK Pension schemes with the costs of administration and independent pension advisers borne by the Group. The total amount recharged in the year ended 31 December 2003 was £1.9m (2002 – £1.6m).

34 Post balance sheet event

On 10 February 2004 the Group completed the disposal of the business, assets and liabilities of Rank Leisure Machine Services Limited and Rank Seasonal Amusements Limited to Gamestec Leisure Limited for a total consideration of £30.0m.

For the year ended 31 December 2003, the turnover of the disposed businesses was £56.8m and operating profit was £3.6m.

Principal Subsidiary Undertakings

Except where otherwise stated, The Rank Group Plc (Rank) owns directly or indirectly 100% of the ordinary share capital and voting rights of the following companies. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration.

Gaming	Principal activities
Grosvenor Casinos Limited	London and provincial casinos
Mecca Bingo Limited	Social and bingo clubs
Rank Leisure Machine Services Limited	Amusement machine hire and sales
Rank Group Gaming Division Limited	Owns the Group's investments in Gaming division companies
Blue Square Limited*	Interactive gaming
Hard Rock	
Hard Rock Cafe International (USA) Inc. (US)	Operates and franchises Hard Rock Cafes
Hard Rock International Limited	Operates and franchises Hard Rock Cafes
Hard Rock Canada Inc. (Canada)	Operates and franchises Hard Rock Cafes
Deluxe	
Deluxe Laboratories Limited	Film processing laboratory
Deluxe Laboratories Inc. (US)	Film processing laboratory
Deluxe Toronto Limited (Canada)	Film processing laboratory
Deluxe Media Services Inc. (US)	Video duplication and distribution
Deluxe Global Media Services LLC (US) – (of which Rank owns 88%)	DVD replication
Holding & other companies	
Rank America Inc. (US)	Owns the Group's investments in the US
Rank Group Finance Plc*	Funding operations for the Group
Rank Leisure Holdings Plc*	Owns the Group's investments in the UK operating subsidiary undertakings and Rank Overseas Holdings Limited
Rank Overseas Holdings Limited	Owns the Group's investment in Rank Holdings (Netherlands) BV and Rank America Inc.

*directly held by the Company.

Five Year Review

Year ended 31 December

	2003 £m	2002 (as restated) £m	2001 £m	2000 £m	1999 £m
Turnover					
Current operations (including acquisitions)	**1,926**	1,509	1,367	1,404	1,330
Former operations	**–**	–	–	389	711
	1,926	1,509	1,367	1,793	2,041
Operating profit before goodwill amortisation and exceptional items	**223**	221	211	203	196
Goodwill amortisation	**(6)**	(1)	(1)	–	–
Operating profit – current operations (including acquisitions)	**217**	220	210	203	196
Former operations	**–**	–	–	60	111
	217	220	210	263	307
Exceptional items charged against operating profit	**(51)**	(6)	(38)	(44)	(98)
Non-operating items (including share of associates)	**4**	4	9	(450)	32
Universal Studios Escape before exceptional items	**–**	–	–	(11)	(2)
Universal Studios Escape exceptional items	**–**	–	–	(1)	(46)
Other associates and joint ventures	**1**	3	3	(11)	2
Interest (net)	**(42)**	(23)	(24)	(87)	(87)
Profit (loss) before tax	**129**	198	160	(341)	108
Tax	**(28)**	(59)	(67)	173	(43)
Minority interests	**1**	(2)	(2)	(3)	(2)
Preference dividends	**(17)**	(21)	(21)	(21)	(21)
Earnings (loss)	**85**	116	70	(192)	42
Basic earnings (loss) per Ordinary share	**14.3p**	19.6p	11.9p	(27.6)p	5.4p
Basic earnings per Ordinary share before exceptional items	**19.2p**	19.9p	16.5p	15.2p	19.3p
Basic earnings per Ordinary share before goodwill amortisation and exceptional items	**20.1p**	20.1p	16.5p	15.2p	19.3p
Total dividend per Ordinary share	**13.9p**	13.2p	12.6p	12.0p	12.0p

Year ended 31 December

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Group funds employed					
Fixed assets	**927**	833	733	780	1,938
Investments	**64**	67	65	56	390
Other assets (net)	**253**	268	194	231	59
Total funds employed at year-end	**1,244**	1,168	992	1,067	2,387
Financed by					
Ordinary share capital and reserves	**527**	522	505	509	991
Preference share capital including premium	**–**	227	224	222	220
Minority interests	**16**	20	15	16	14
	543	769	744	747	1,225
Net debt	**701**	399	248	320	1,162
	1,244	1,168	992	1,067	2,387
Average number of employees (000s)	**24.0**	20.9	21.0	37.1	43.1

Shareholder Information

A wide range of shareholder information is available in the Investor Relations area of the Rank Group website: www.rank.com.

Ordinary shares
The total number of Ordinary shares in issue as at 31 December 2003 was 596,163,721 shares which were held by a total of 30,614 shareholders.

Convertible preference shares
The convertible redeemable preference shares ceased to be convertible after 31 May 2003, and were redeemed by the Company on 9 December 2003.

The amount payable by the Company on redemption of each convertible redeemable preference share was £1.00 plus 2.936821p, representing the accrued preference dividend on each share calculated down to and including the date of redemption.

American Depositary Receipts (ADRs)
The Company's Ordinary shares are traded on NASDAQ in the form of american depositary shares, evidenced by ADRs and traded under the symbol "RANKY". Each american depositary share represents two Ordinary shares. The total number of american depositary shares in issue as at 31 December 2003 was 2,043,700 (representing 4,087,400 Ordinary shares) which were held by a total of 2,484 ADR holders.

J P Morgan Chase Bank is the depositary bank. All enquiries regarding ADR holder accounts and payment of dividends should be directed to J P Morgan ADR Service Center, PO Box 43013, Providence, RI 02940-3013 (Tel: 1-800-428-4237 (toll-free in the US) or +1-781-575-4328 (from outside the US)). Information can also be obtained online by visiting www.adr.com.

Share price information
The latest information on the Rank Ordinary share price is available in the Investor Relations area of www.rank.com. Information is also available on Ceefax and on the Financial Times Cityline Service:
Tel: 0906 003 3771 (calls charged at 60p per minute).

Capital gains tax
For the purpose of calculating UK capital gains tax on a disposal of Ordinary shares in the Company held since 31 March 1982 (including shares held in the predecessor company, The Rank Organisation Plc), the price of the Company's Ordinary shares at that date was 190p per share. This price should be adjusted for the effects of the rights issue in January 1990, the enhanced share alternative in November 1993, the sub-division and consolidation of shares in March 1994 and the enhanced scrip dividend in March 1998.

Share dealing service
The sale or purchase of shares must be done through a stockbroker. The London Stock Exchange provides a "Guide to Share Investment Services" which details a number of companies offering share dealing services. For more information, please visit www.londonstockexchange.com/shareaware.

Rank has also arranged a panel of low cost providers:

- Hoare Govett Tel: 020 7678 8300, postal dealing, 1.00% commission, £10 minimum charge.
- NatWest Stockbrokers (www.natweststockbrokers.co.uk)* Tel: 0870 600 4080, telephone dealing, 1.00% commission (i), £15 minimum charge.
- Stocktrade (www.stocktrade.co.uk)** Tel: 0845 601 0995 (quoting LowCo0164), telephone dealing, 0.5% commission (ii), £15 minimum charge.

(i) Up to £4,000, then 0.1% thereafter.
(ii) Up to £10,000, then 0.2% thereafter.

* An additional charge applies to all dealing involving paper certificates.

** To deal online, this service requires registration with Stocktrade and the transfer of shares to a CREST account sponsored by Stocktrade.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Form 20-F
The Company is subject to the regulations of the Securities and Exchange Commission (SEC) in the US as they apply to foreign companies. The Company will file its annual report on Form 20-F with the SEC. Copies of the Directors' Report and Accounts and Form 20-F can be obtained in the US by contacting J P Morgan Chase Bank at the address quoted above.

Registrar
All enquiries relating to Ordinary shareholders, dividends and changes of address should be addressed to the Company's registrar (quoting reference number 1235), Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (Tel: 0870 600 3953). There is a text phone available on 0870 600 3950 for shareholders with hearing difficulties.

www.shareview.co.uk
The Shareview Portfolio service from the Company's registrar gives shareholders more control of their Rank shares and other investments including:

- direct access to data held for them on the share register including recent share movements and dividend details;
- a recent valuation of their portfolio;
- a range of information and practical help for shareholders.

It is easy and free to set up a portfolio – shareholders will just need the shareholder reference printed on their proxy form or dividend stationery. Visit the website for more details: www.shareview.co.uk.

Shareholder Information continued

Payment of dividends
Shareholders whose dividends are not currently paid to mandated accounts may wish to consider this method of payment, which has a number of advantages: dividends are paid direct into the shareholder's nominated account, cleared funds are provided on the payment date, and the relevant tax voucher is sent to the shareholder's registered address.

If shareholders would like future dividends paid in this way, they should contact the registrar for a dividend mandate form. A mandate form will also be attached to the next dividend cheque.

2004 Interim Results
The Listing Rules published by the Financial Services Authority permit the Company to publish its Interim Results in a national newspaper instead of sending a printed brochure to shareholders. For the 2004 Interim Results, which will be announced on 3 September 2004, the Company has decided to take advantage of these provisions and will be placing an advertisement in the Financial Times on 8 September 2004 instead of distributing a printed brochure. This is in addition to a press release being made on the day, and the availability of the results on the Company website.

ShareGift
Shareholders with a small number of shares, the value of which makes it uneconomical to sell, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Share transfer forms are available from the registrars.

Further information about ShareGift is available at www.sharegift.org or by writing to:
ShareGift
The Orr Mackintosh Foundation
24 Grosvenor Gardens
London SW1W 0DH
Tel: 020 7337 0501

For further information please contact:
Charles Cormick, Company Secretary
Peter Reynolds, Director of Investor Relations
The Rank Group Plc
6 Connaught Place
London W2 2EZ
www.rank.com
Tel: 020 7706 1111

Summary Notice of Annual General Meeting

Summary of business to be transacted at the 2004 Annual General Meeting
The full text of the notice of the meeting, together with explanatory notes, is set out in a separate document which is enclosed with this Report and Accounts.

The Annual General Meeting of the Company will be held at the Radisson SAS Portman Hotel, 22 Portman Square, London W1H 78G at 11.30am on Tuesday, 27 April 2004.

Business to be transacted at the Annual General Meeting

1 To receive the Report and Accounts for the year ended 31 December 2003.

2 To approve the Remuneration Report for the year ended 31 December 2003.

3 To declare a final dividend.

4 To re-appoint Peter Jarvis as Director.

5 To re-appoint Alun Cathcart as Director.

6 To re-appoint PricewaterhouseCoopers LLP as Auditors.

7 To authorise the Directors to agree the Auditors' remuneration.

8 To authorise the Directors to allot Ordinary shares.

9 To disapply pre-emption rights.

10 To authorise the Company to make market purchases of its Ordinary shares.

11 To authorise the Directors to declare scrip dividends.

Proxy forms for use in connection with the business to be transacted at the Annual General Meeting are enclosed with this Report and Accounts.

2004 Financial Calendar

27 April	7 May	3 September	15 October
Annual General Meeting	Final dividend payment on Ordinary shares	Interim results announcement	Interim dividend payment on Ordinary shares

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